S. Hrg. 98-765

FOOD STAMP OPTIONAL BLOCK GRANT ACT

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 1279

A BILL TO AMEND THE FOOD STAMP ACT OF 1977 TO ESTABLISH A STATE BLOCK GRANT OPTION FOR THE FOOD STAMP PROGRAM

FEBRUARY 1, 1984

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
32-990 O WASHINGTON : 1984

S161-23

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FOOD STAMP
OPTIONAL BLOCK GRANT ACT

WEDNESDAY, FEBRUARY 1, 1984

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 10:12 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms, Andrews, Huddleston, Zorinsky, and Pryor.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order.

We have something less than a quorum, but the rules permit us to go forward.

Senator HUDDLESTON. Anytime you and I are here, Mr. Chairman——

The CHAIRMAN. We have got a majority, that is right. If they just turn it over to us, we can run with dispatch. [Laughter.]

Today, we want to examine S. 1279,[1] a bill which I introduced to establish a State block grant option—the key word there is option—for the food stamp program.

Under the bill, any State can opt to operate a low-income nutrition assistance block grant designed by the State, in lieu of the present Federal food stamp program.

In terms of substantive provisions, this proposal is almost identical to legislation that was included in the reconciliation bill passed by the Senate in 1982. However, the House conferees did not agree to include the provision in the final version of the Omnibus Budget Reconciliation Act of 1982.[2]

The block grant concept has received additional attention with the recommendations of the President's Task Force on Food Assistance. The task force's primary recommendation was that all current food and nutrition programs, including the food stamp program, should be available as, as they put it, "autonomous food assistance programs," at the option of each State. The legislation we will be considering is consistent with the concept advocated by the task force.

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[1] See p. 151 for a reprint of S. 1279.

[2] See p. 107 for background on nutrition program block grant.

Under the autonomous, or block grant concept, individual States would be free to set standards and procedures for providing food assistance to the needy in each State.

Many State and local officials have suggested to me over the past several years that for numerous reasons, they feel the need for greater flexibility in the administration of the food stamp program.

This proposal will provide the States with just such discretion on how to operate their programs. As such, it will enable those States—those States wishing to attempt it—the ability to strike out in a new direction. States could tailor nutrition assistance to fit the individual needs and desires of their citizens.

Despite differences in conditions and cost-of-living standards among the States, the current program provides uniform, inflexible standards, and it should be obvious that the current rules and regulations do not necessarily work the same in rural North Carolina or Kentucky as in, say, inner New York City. Day-to-day program operation specified for urban areas do not accommodate the individuality of small towns.

This Senator believes that we need not be, and should not be, confined to the solutions of the past in trying to determine how best to manage food assistance for the poor in the future. I, for one, am convinced that creative and innovative proposals will be formulated and implemented by the States if they had that option available to them. Now, Senator Huddleston, I know that you would just delight in my going on and on, but I have a prepared statement, and without objection, I am going to include the rest of it in the record.[1]

I will call on the distinguished minority ranking member, Senator Huddleston, for his comments.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator **Huddleston**. Thank you, Mr. Chairman, and I, too, will submit for the record a detailed written statement.[2] First of all, I think it is appropriate that we have hearings on the whole question of block grants as it relates to the food programs that we have. It is a matter of current interest, and there has been a lot of talk about block granting a number of the Federal programs.

I think it is important that we try to understand what the impact would be down at the street level. After all, that is where all the action is and where the services are being delivered to the people. Whatever we call it here, however we argue it, or however it sounds on the floor of the U.S. Senate, may be entirely different from what is actually occurring out there where the need is and where people are administering the programs.

Certainly, the concept of letting local people make decisions affecting local citizens is one that has some appeal. On the other hand, I think we have got to analyze, if we can, whether or not we are talking about having a whole multitude of different types of programs in each State, whether the eligibility requirements would be consistent from State to State, whether the standards and procedures are a jumble, and whether the national objectives that we have set, of trying to do something about nutrition deficiencies, and trying to meet a very desperate need that may occur, can be achieved best in that manner. We must also explore whether or not the possibility may exist for the States to divert funds that might come to them in a block grant for purposes not intended by Congress, or not consistent with the objectives of the program. I think all of these areas ought to be explored. And, I feel certain that those witnesses who will be appearing before us today will be addressing those questions.

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[1] See p. 51 for the prepared statement of Senator Helms.

[2] See p. 53 for the prepared statement of Senator Huddleston.

I think it also may be constructive to think back, and to consider the reasons why we have so many Federal programs. One reason is that in the past, there has been this great diversity between the States, in the eligibility requirements and the implementation of the various programs. I, therefore, have great reservations about the block grant proposal—optional or not. Based on the information available to me, I cannot support a block grant proposal for any food assistance program.

Nevertheless, I still think that, as you said, Mr. Chairman, we ought to investigate and study every possible new approach that might in any way improve the program, might reduce the cost of it in an appropriate way, or make other improvements.

So I will be pleased to hear from the witnesses today, and appreciate your holding this hearing.

The CHAIRMAN. Thank you, Senator.

Senator Huddleston, I want to call your attention to that work of art over that case back there. (Reference to framed tobacco in the hearing room.)

Senator HUDDLESTON. It looks a lot better than what was grown in Kentucky this year, I will tell you that. [Laughter.]

The CHAIRMAN. Well, I might add that that was not grown in North Carolina this past year, either.

Senator HUDDLESTON. There are probably some people in Kentucky who would break that case, take it to market and trade it for their crop. [Laughter.]

The CHAIRMAN. We welcome again John Bode. I am always fascinated by these titles. Mr. Bode is Deputy Assistant Secretary for Food and Consumer Services at USDA. Before you proceed, I want to welcome Senator Zorinsky. Do you have a statement, Ed? Dee and I went through the routine of putting ours in the record, anyhow.

Senator ZORINSKY. I have no statement, Mr. Chairman.

The CHAIRMAN. It is nice to have you here, John. Glad to hear from you.

STATEMENT OF HON. JOHN W. BODE, DEPUTY ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. BODE. Thank you.

In keeping with the spirit of your chairmanship, I will try to be brief and to-the-point.[1]

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[1] See p. 57 for the prepared statement of Mr. Bode.

We appreciate the opportunity to come here and comment on this bill, your bill to establish the State block grant option for the food stamp program. The concept of a State option to receive program funds in the form of a block grant is one which the Reagan administration enthusiastically supports.

We commend you and the bill's cosponsors for presenting this approach. We appreciate the Senate's support of the approach in the past, and we are very hopeful that it will again pass the Senate and hopefully, become law this year.

We believe that a block grant option is the desirable method for fitting Federal programs to the specific needs of a given State. It allows responsible State and local officials to tailor program design and benefits to the particular requirements of their people, and it clearly assigns program responsibility to those public servants who are most accessible to the State's electorate.

It recognizes that knowledge and expertise concerning what is best for program design and execution, and the needs of the people that are served by these programs, exists among the elected officials and government professionals at the State level.

This is a nation of great diversity, and as a result, there is all too often a misfit of Federal programs to unique local and State circumstances. This reality demonstrates the need for a block grant option for the States.

Of course, your bill, making this an optional provision, is doubly attractive, because the States do have the choice of retaining the Federal program.

We are pleased that the Congress, with the good help of this committee, when confronted with special circumstances in the past, has already turned to the block grant as a solution. The Omnibus Budget Reconciliation Act of 1981 gave the Commonwealth of Puerto Rico the authority to structure its own low-income food assistance program. A program suffering from fraud, coupon theft, and trafficking was changed by the Commonwealth government into a food assistance program which more efficiently delivered benefits to needy citizens.

We do not view the Puerto Rico program as an exact blueprint for the States. Puerto Rico has served as a unique laboratory for Federalism for human services programs. Certainly, our support of the Commonwealth's discretion in determining its program design should not be construed as our support for program cash-out. It is, instead, a recognition of the importance of State discretion in setting up the program.

Nevertheless, we view the Puerto Rico experience as a positive indication of the success which block grants can achieve by decentralizing Federal programs in response to local circumstances.

The food stamp program in its present form provides valuable and necessary benefits to many needy persons in this country. It remains the mainstay of our family nutrition efforts. However, we must admit that that program also has some problems. About $1 billion is misspent each year, and that is a documented fact. Too many States have unacceptably high error rates, and many States in turn express frustration with Federal program requirements.

We feel that some States operating under block grant authority, such as that proposed by your bill, could devise even better ways to deliver food assistance benefits to the citizens of their particular States.

At this time, we are assessing a number of alternatives for the details of a food stamp program block grant. Therefore, I am not at liberty today to talk about details of legislation. But I do want to emphasize that we are strongly supportive of the concept that your bill embodies.

As always, it has been a pleasure to be here today, and I would be pleased to answer questions.

The CHAIRMAN. Thank you, John, for a fine statement.

We have a file full of letters and memorandums from food stamp administrators, principally in North Carolina, but not limited to North Carolina, who have contended over the years that they see so many abuses of the program which they are powerless to control because of the rigidity of the situation.

One lady—I am almost tempted to identify the county, but I guess I will not do that, lest I get her into trouble—said, "I see this going on all the time, and it is costing thousands of dollars for just one county. I hate to imagine what it must cost when this situation is duplicated throughout the nation."

Now, do you have the same sort of comment from the local people?

Mr. BODE. Yes, Senator. We hear those comments, and we hear others, too. For example, some State level officials have expressed frustration that as they increase assistance, such as general assistance grants or other State programs, food stamp benefits decrease. This is because of the way the food stamp program works, and it is a very basic characteristic of the program, the food stamp program fills in the gap. Its benefit level is based on the other income the household has. So the State officials are frustrated when they increase general assistance grants, and the food stamp grants go down. Of course there are ways they try to find to get around that.

By having a block grant, it would allow States to better tailor their whole network of social assistance programs to the needs of the people in their States, as well as permitting a great deal more flexibility in the administration of the program so it can be administered more simply.

In Puerto Rico, administrative costs went down from fiscal 1981 to fiscal 1983 by about 18 percent. I think that demonstrates the savings that can be achieved administratively, as well as a better tailoring of benefits to the needs of the people.

The CHAIRMAN. Is there any reason to suspect that the State and local administrators would be less compassionate than the intent of the Federal program?

Mr. BODE. No, sir. I think, for one thing, you bill builds in protection and security; no discrimination would take place. And bills can be directed to providing nutrition assistance with the money. I find the State administrators and local officials much closer to the problem, and they are people who are very compassionate and committed to helping the people that the programs serve.

The CHAIRMAN. Well, maybe I ought not wander off into this area, but let me give you an example of what I am talking about.

Let us consider the duplication in food stamps. By that, I am referring to the duplication of meals, say, for two schoolchildren in a family who receive as many as 10 lunches a week, assuming regular attendance at school. Yet their families are given food stamps to cover those same 10 meals.

Now, at one time, as you know, I proposed that the Congress take a look at that, and immediately I was assailed as being hardhearted, wanting to starve the schoolchildren to death, and so forth, and that the savings were a pittance. In any case, then I had the Congressional Budget Office to run an estimate of how much this one instance of duplication would cost the taxpayers, and it came to something like $600 million a year.

One of the administrators in North Carolina took note of that and wrote to me and said, "Now, this is what we are talking about in the trafficking of food stamps. This creates an overissuance. So these people save these stamps, and they sell the stamps that they do not use. They accumulate them." And she described the entrepreneurs who float around, buying stamps for maybe 40 percent of their face value, and then they are turned in to somebody up the line, and he gets 80 percent, and then the guy at the top gets 20 percent. I think my figures are roughly correct on that.

Now, would you favor, in the block grant concept, taking a good, strong look at all of these duplications.

Mr. BODE. Sir, I think the real beauty of the block grant concept is that it allows State officials who are there on the scene and know best what specific programs are provided by the various levels of government to the people of their State design the program. They can take account of those various programs in shaping the nutrition assistance program, which does the best job of using tax dollars to help the people who need help most. So, yes.

The CHAIRMAN. Well, let us get on to savings. You mentioned a figure in your statement. Did you say $20 million of savings?

Mr. BODE. After my statement, I referred to Puerto Rico, where administrative costs are 18 percent less in 1983 than they were in 1981.

The CHAIRMAN. Well, let me ask the question that I was getting to. Have you got any estimate of the administrative savings in the event an optional block grant program is adopted in the States?

Mr. BODE. No, sir. We really do not have a good estimate because there are so many unknowns.

The CHAIRMAN. Variables.

Mr. BODE. It just depends on how the individual State determines it is best to structure the program in addressing the needs in that State.

The CHAIRMAN. But you did have 18 percent savings in Puerto Rico.

Mr. BODE. Yes, sir, we did. The nutrition assistance program administrative costs are $10.4 million lower, or 18 percent less.

The CHAIRMAN. Well, as you say, there are so many variables that it would be hard to come up with a figure. It would depend on how many States opted for the block grant, and all the rest of it.

From your perspective, the Federal perspective, could the Federal Government handle the administration, that is to say, the oversight of optional block grants? Would you have any problem doing that?

Mr. BODE. That would be a small task relative to the one that is presently being done. There would be no problem.

The CHAIRMAN. Well, I assume that you would have to provide some kind of technical assistance to the States opting for this?

Mr. BODE. Well, we would be happy to, and we appreciate the fact that your bill specifically provides authority for that. Presently, a great deal of technical assistance is provided with the Federal programs.

The CHAIRMAN. What did you provide for Puerto Rico; do you recall? Just give me some examples. I know I am throwing a question at you that you did not anticipate.

Mr. BODE. Senator, I can give you a general idea. We had a couple of people go down and answer questions on how to assure proper accountability and that sort of thing, and there were many phone calls, comparing notes, and working together. I do not think it was in any way an instructive or heavy-handed Federal role, but instead a cooperative effort.

The CHAIRMAN. You did not have any complaints?

Mr. BODE. No, we did not.

The CHAIRMAN. I have taken too much time.

Senator Huddleston?

Senator HUDDLESTON. Thank you, Mr. Chairman.

The State people, of course, administer the program now, but what leads you to believe they could eliminate abuses any better than they are doing now, if they just got a block grant? Abuses in the program, aside from the structure of the program itself, come in large degree because of the inability of the State administrators to adequately police the program.

Aren't these the same people who are going to be administering the block grants?

Mr. BODE. Yes, sir.

I think there are two reasons. The first one is, those State officials would have greater administrative discretion. When the people who are closest to the action are having a bigger say in setting the rules for how a program works, it seems invariably to turn out a little better. A book that is on the best seller list right now, about the best run corporations in America, "In Search of Excellence," talks about that, how the best run corporations have better tailoring of their products or services to the intended customers. For example, they have their sales forces doing more in product development. It is the same concept here.

Also, the second factor is that because of the grant providing the great discretion that it would, once that grant is provided, it is clearly State money. Thus, the State would have a direct fiscal interest in administering the program with the absolute minimum of abuse.

As you know now, in the food stamp program, with the exception of a sanction system which is not too strong, the States do not have to pay for the cost of overissuances which are provided. Those overissuances are paid for by the Federal Government.

Senator HUDDLESTON. And this would switch that responsibility. But it seems to me that the authority you apparently would be giving is more than just administering the program, including the authority to set the standards or criteria and the eligibility requirements. But, it brings us back to the question of whether we want that to happen in 50 separate States.

Mr. Bode. Let me address this generally. The money that is saved in administration would be put into benefits. So, more of the money would go to the people who need help. That is what we see as the strongest asset.

Senator Huddleston. Well, that is an assumption, but there is no guarantee. In fact, that raises another question. How do you make sure that there would be no diversion of these funds to other purposes that are not consistent with the objectives of the feeding program?

I suppose you can include that in the law.

Mr. Bode. Yes, sir. In the bill before the committee now, there are some very specific requirements for accountability, including regular audits, to assure that the funds are going where they are supposed to.

Beyond that, in terms of program design, it is very simple to include in the legislation a requirement that these moneys be dedicated to low-income nutrition assistance.

Senator Huddleston. Incidentally, Puerto Rico is not a good example to use as far as the food stamp program is concerned. It is not run like any State program.

Mr. Bode. Right. And that is why I tried to emphasize in my statement that we do not see the Commonwealth of Puerto Rico as an exact blueprint of what should be done in the States, but we do think of it as an enlightening example.

Senator Huddleston. A block grant, of course, would be determined by the appropriations process and the amount of the grant would be set, presumably, at the beginning of the fiscal year. How could a State deal with a situation that might occur during the year where there is drastic change, such as a sudden increase in unemployment, or something of that nature?

Mr. Bode. I hope that you will ask that question again to the next witnesses, because I know that Dr. Clarkson is one who has some expertise in this area and has addressed it at great length with the task force on food assistance.

I would note, though, that unemployment data—and I believe that unemployment is the sort of thing you are talking about——

Senator Huddleston. That is certainly one. There might be other kinds of disasters, or upheavals, or whatever.

Mr. Bode. Well, then let me address unemployment and then go to disasters.

With respect to unemployment, unemployment data is available by State, and so that sort of data could be used in a funding formula.

Senator Huddleston. But it is not prospective. We do not know what it is going to be next month.

Mr. Bode. Well, there is a lag of about 2 to 3 months on that unemployment data. However there is also some lag in the food stamp program response to unemployment increases.

So I do not see that as a serious inadequacy.

With respect to disasters, we have special disaster activities now which we employ. We have done it several times this year already—I can think of a tornado in Texas, as well as flooding, and of course, the hurricanes—we respond——

Senator HUDDLESTON. So it is your judgment, then, that there is flexibility enough, or you could build in flexibility?

Mr. BODE. Yes, sir, I think so.

Senator HUDDLESTON. We have seen some wild fluctuations in the employment situation that could, within a fiscal year, have a very substantial impact on the program. So it is a question of whether a State, with a fixed amount appropriated to it, could respond to the increased need adequately.

Mr. BODE. We feel that can certainly be structured.

Senator HUDDLESTON. What if a State opts to accept a block grant program, then decides that it wants to go back? Do you have proper provisions to accomplish that task, and how much would it cost the Government to do so?

Mr. BODE. It is my reading of the bill now before the committee that that would be permitted under this legislation. That is one of the details of block grant structure that I am afraid I need to beg off on today, because we do not have our position really settled.

Senator HUDDLESTON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Andrews?

Senator ANDREWS. Thank you, Mr. Chairman.

Let me for just a minute, Mr. Secretary, explore some of the preconceptions I had when I came in here, so that you will know where my questions are coming from.

It seems like once again, we are debating this question of hunger in America, and specifically this morning, the future.

The CHAIRMAN. Mark, why don't you pull your microphone up a little closer, so the folks can hear you. I know you do not agree with me on this, but I want you to be heard, nonetheless. [Laughter.]

Senator ANDREWS. Mr. Chairman, it is amazing how much you and I agree. In fact, I came over here largely with a couple or three of my Republicans from the House who want to make big medicine with you on another thing that we think is important, and I hope that later on, you will have the chance to visit with them, and I will be glad to filibuster here for you or against, depending on how easily I can make you available to them——

The CHAIRMAN. Well, I will say, if I have the choice of your filibustering for me or against me, that is no choice at all. [Laughter.]

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. This morning, we are talking about the future of the Federal food stamp program, and last week we had on the House side, with the combination, Mr. Chairman, of our Senate committee, as well as the House committee, we had the benefit of hearing testimony from members of the President's Task Force on Food Assistance. That task force, as we all know, called for improvements to several programs, including the thrifty food plan, the assets test and food assistance for the homeless.

I consider, of course, these recommendations a positive step in the right direction. I am going to enthusiastically support legislation promoting these much-needed improvements.

But one recommendation that I cannot see supporting yet is the recommendation to authorize States to establish these autonomous food programs or block grants to States.

Now, the food stamp program as we know it has evolved, as I understand it, Mr. Chairman, over an extended period of time and over administrations of both parties. Throughout all of these changes, the single purpose of the program has remained unchanged, the simple one: to feed people.

In the late sixties, research indicated that when each State was left to design and implement its own program, major gaps in coverage and major problems of poverty-related hunger and malnutrition remained.

I was on the Appropriations Committee that funded the Department of Agriculture in those days, and we were getting the request from a Republican Secretary of Agriculture, under a Republican administration, pointing this out. They felt that major problems of poverty-related hunger and malnutrition remained. Until the 1970 Food Stamp Act, every State in the program was entitled to fix its own monetary standards of eligibility with monthly allowance income limits for households of varying sizes. They ranged from a low of $180 in South Carolina to a high of $350 in New York. You may remember this, Mr. Secretary, or certainly your staff does.

Liquid assets ranged from $500 for four persons in New Mexico to $2,600 for four in South Dakota. Because of this, the Republican administration at that time established national eligibility and benefit standards to assure that low-income families, regardless of age or composition, need not face hunger or malnutrition.

The Federal food stamp program truly, then, is intended to provide a uniform Federal response to a national problem—hunger, poverty and the resulting incidence of malnutrition.

I do not stand alone, Mr. Chairman, in my objection to this legislation. My colleagues, Senators Hatfield, Dole, and Boschwitz have all expressed reservations with respect to the block grant proposal.

Possibly, the rationale for a block grant program for food stamps was due to an overwhelming demand by State and local authorities for local control over the program. But as we know, the National Governors' Association, the National Association of Counties, and the U.S. Conference of Mayors all strongly oppose this legislation. And this is government, as I understand, Mr. Chairman, from you so often, closer to the people, which is best.

Why, if the concept is so necessary today, do the Governors, the mayors and the county commissioners all oppose it?

Certainly, the food stamp program is not perfect. Error, fraud, abuse, and waste can be found in many Federal programs. The Defense Department is plagued with waste and cost overruns. However, the current sanctions are having a positive effect, I think.

I would appreciate if you could tell us if they are not. Error rates are decreasing. It simply makes no sense to apply pressure on the States in an effort to bring error rates down, while at the same time we give them a block grant option, enabling them to escape the heat. When the fire gets too hot, the States will not have any option at all. The block grant will be the only financially feasible alternative.

So, for these reasons, it seems to make much more sense to retain the food stamp program as a Federal program and insure that it will accomplish the objective the program has had since the Nixon administration—that of providing a uniform Federal response to the problems of hunger, poverty, and malnutrition.

Perhaps the most convincing argument is the fact that this legislation would inevitably result in reduced food consumption. And that is why I get to the question of how do we justify, Mr. Chairman, this kind of an approach, given the experience we have had in the past, given what local leaders have said—and if we do have abuses, don't we have with the U.S. attorneys the ability to handle those abuses? And our population is a mobile population—as my colleague from Kentucky asked, what happens if you get a group of migratory workers who come into North Dakota or to Florida or to North Carolina, and they are there, and suddenly they need help? Is that truly an obligation of that State, or because they come from other areas, isn't it a national obligation?

Now, I have gone all over the place, Mr. Secretary, but deliberately so, because I am concerned about this. And I think every member of this committee is interested in resolving the nutritional deficits of the people in this country. I have yet to see how we are going to save money by going on this grant program from the Federal Government, and I am wondering how there could be any guarantee of adequate benefit levels under a block grant.

Mr. **Bode**. I will try to take your points one at a time, Senator.

Senator **Andrews**. Well, I thought I would load it all out and let you respond to it. And if you can convince me I am wrong—and I do not want to take up too much time of this committee, but I know other members of the committee have the same questions.

Mr. **Bode**. You paint a real clear picture as to what your views are.

Senator **Andrews**. I try to.

Mr. **Bode**. Regarding the initial varying levels of benefits, I do not recall the specific situations you are referring to——

Senator **Andrews**. Well, suffice it to say, before we went national, we had varying levels of benefits. That is why a Republican administration decided we had to go national, to eliminate that concern.

Mr. **Bode**. Senator, it is my recollection that that was a result of the level of financial contribution on the part of the State to assist for the low-income population. States that had low benefit levels were contributing less money to social assistance.

Now, the block grant concept would continue to provide Federal assistance on a par with Federal assistance that is now being provided to those States.

I think the fiscal pressure that State legislatures had been feeling at that time, to hold benefits lower in some States, would be overwhelmed by the fact that the block grant would provide a set level of Federal moneys on a par with what has been provided to date to the State for the specific purpose of providing nutrition assistance.

With respect to error rates, I think we do have a problem with error rates now. I mentioned in my statement that about $1 billion a year is misspent in the food stamp program because of error rates. The situation is getting better, but it is still way out-of-hand. The reason for that is that the food stamp program is basically the last priority among State-administered programs. The States have no significant direct fiscal interest in administering the food stamp program with the lowest possible errors.

Let us compare it with AFDC, for example. I was in the State of North Carolina yesterday. In North Carolina—and it is not unusual—the food stamp caseworkers had twice the caseload as AFDC caseworkers. Now, food stamps are starting to be computerized in North Carolina. It is a very good thing. I think 51 counties are now computerized, but they still have a good way to go. AFDC has been computerized for a good while, several years.

I do not want to sound like a bureaucrat who is frustrated because his program is not getting as much money for administration as another program. My point is that in the AFDC program, where there is significant State money involved, administration of that program is a much higher priority than in the food stamp program, where all the benefits are Federal money.

What we ought to be taking care of is how best to get the taxpayer's dollar to the people who need the money the most, rather than squabbling so much about State level, Federal level. We ought to merge the fiscal responsibility for prudent administration of the program with the level of government that could reasonably be expected to have discretion in administering the program.

Senator ANDREWS. Except that, Mr. Secretary, when you talk about this computerization of the food stamp program, I looked into that. A couple of States in this country are setting up computer programs, but they refuse to provide the public with the type of programing they are going to use. They refuse to make public the information as to the direction this programing is going to take. At least, we found that to be true.

Wouldn't we be better off, given this kind of experience, to have some kind of nationwide procedure, some guidelines, to make sure that these programs of these computers are, in fact, set up so they are uniform and equitable to everybody concerned?

Mr. BODE. I am sorry, Senator. I am not familiar with the problem of availability of the programs that are being developed which you are referring to——

Senator ANDREWS. We will be glad to get that information to you. We have contacted—we have sent letters down to the Department of Agriculture on that, and you have a file so thick.

Mr. BODE. Well, I guess that is not in my file cabinet, but I will find that one and look into it.

Senator ANDREWS. OK.

Mr. BODE. I think, to address your point of efficiency in developing software that can be applied uniformly across the country, it does sound good, but frankly, some software tailoring is done now in every State. What I mean by that is that the computer programs that are developed in various States now—and a good number of States are well computerized with food stamps, finally—some individual characteristics of the State have to be accounted for in the development of those programs. So every State has a little different software package than the others.

Here again, though, the Federal technical assistance which we now provide could continue under a block grant. I really do not see that as a problem.

Senator ANDREWS. Well, I have taken up too much time. But let me ask you to be specific on just one, small thing. If we go to block grants, how do you know the States are not going to take those block grants and cut and run? How do you know they are going to live—or, are you going to circumscribe those block grants with so much detail that, in effect, they cease being block grants and are really directives from Washington that spell out everything and do not leave the discretion to the individual States?

We found when we had discretion that they were all over the place. That is why we went toward the Federal system, as I outlined earlier.

Now, everybody says discretion is great. But what kind of guarantees do you have, Mr. Secretary, that, given this discretionary stuff, they are not going to cut and run?

Mr. BODE. Senator, I think that is a matter that can be addressed very simply in the legislation——

The CHAIRMAN. And it is. Let me interrupt, John.

Mr. BODE. Yes, sir.

The CHAIRMAN. Mark, the last thing I want to do is restrict you in time.

Senator ANDREWS. And I have said I have taken too much, and this is the last one.

The CHAIRMAN. Let me provide you with a copy of the bill, appropriately marked, which will answer these questions. We have built in all sorts of safeguards on that and other questions.

Senator ANDREWS. I have seen the bill, Mr. Chairman, and the question actually goes to, if we have this much restrictions and all the rest, it actually ceases being a true block grant. And I wanted the comment of the Secretary on that.

The CHAIRMAN. And of course, he would have to follow the law, and we are the ones who make the law. And I have endeavored to build into this bill the precautions that prompt the questions you are raising. That is the purpose of these hearings, and I want to work with you. If you find that the legislation as tentatively drafted is inadequate, I would like to have your suggestions, because I want the same thing that you want, in this regard. I do not want people cutting and running and that sort of thing—none of us do.

Senator ANDREWS. I appreciate that, Mr. Chairman, and my apologies for taking so long.

The CHAIRMAN. No apology necessary.

Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

Mr. Secretary, does the Governor of the Commonwealth of Puerto Rico support the block grant proposal over the previous form?

Mr. BODE. The Governor of Puerto Rico did not support the move to a block grant. His reason for opposing it, from my discussions with him, was a very simple one, the block grant that is presently provided for Puerto Rico has less money going to Puerto Rico than the previous food stamp program.

When that grant was developed, it reduced the level of funding for Puerto Rico by about 15 percent. That was the sole basis, as I understand it, for his opposition to the proposal.

Senator Zorinsky. So, given equal amounts of financial assistance, he endorses the block grant?

Mr. Bode. I am hesitant to speak for him, but that is my impression.

Senator Zorinsky. That he favors the block grant over—given equal amounts of money here or there, he prefers the block grant?

Mr. Bode. Here again, I am hesitant to speak for him, but that is my impression. He very much appreciated having discretion in structuring a program that was tailored to the needs of the people in Puerto Rico.

Senator Zorinsky. Well, I am going to talk to the Governor. I have not heard that he supports the block grant if all things were equal. Obviously, I do not think you will find a Governor anywhere in the United States that would favor getting cut as far as the amount of money to a program.

But with all the positive aspects that you brought out in reference to Puerto Rico as an example, I would be interested in knowing why he does not favor the block grant, if indeed there are so many positive things available to him over the way it had been before.

Do you have any figures on how many people have been incarcerated or convicted of fraud and abuse? You said there was a billion dollars' worth of fraud and abuse——

Mr. Bode. Sir, if I may, we will provide you some more detailed numbers. There has been a significant increase in the number of indictments; it is an astronomical percentage—yes, sir, there has been an increase. I would like to provide you those numbers. I do not have them on the tip of my tongue.

[The following information was subsequently received by the committee:]

In Fiscal Year 1981, 705 people were disqualified through prosecutions. In Fiscal Year 1982, 3,707 people were disqualified—a 429 percent increase. In addition, the number of people disqualified through administrative fraud hearings more than doubled during this period.

Mr. Bode. The billion dollars that I referred to is the level of overissuance which we identified in our quality control system.

The Chairman. You subtract the underissue?

Mr. Bode. No, sir. I was referring only to overissuance. Of course, it varies from one period to another. Not too long ago, we were experiencing 10.4 percent overissuance with an $11 billion program, and of course, it was well over the billion dollar mark. I think that a billion dollars is a fairly conservative statement that, year in, year out, has been accurate of the level of overissuance.

Senator Zorinsky. I do not question the number. What I am trying to get at is, any program is only as good as its management. Quite obviously, we have got a problem in enforcement and management—as you always do have when you use somebody else's money.

The Chairman. That is the point.

Senator ZORINSKY. I guarantee if Puerto Rico were using their own money, they would be a little bit more prudent.

Mr. BODE. I have been provided some numbers. On the number of prosecutions, in fiscal 1981, completed, it was 7,116; it went up to 10,426 in 1982. That is an increase of some 47 percent.

Now, Senator, I do not want to give you the impression that a 47-percent increase is solving the problem. I think you realize that with 22 million people——

Senator ZORINSKY. Is that convictions or prosecutions?

Mr. BODE. That is completed prosecutions, I believe.

Senator ZORINSKY. I mean, what did they do, turn them loose and say, "Don't do it again"—which means nothing.

Mr. BODE. May I give an anecdotal story, very quickly?

The CHAIRMAN. Why not?

Mr. BODE. Yesterday, I visited a U.S. attorney's office and talked to an assistant U.S. attorney who was working on this activity among the other things he does. He said in the last 2 months, they have had 35 indictments. They have already gotten convictions on 15 of those—1 went to trial, 14 others plead. This was in the eastern district of North Carolina. The remaining cases, he felt very confident would be completed without the loss of a case. He felt a good number of them would plead—you know how a prosecutor has a good feel for that.

I think stiffer penalties are being given—that was certainly what I heard there—and more is being done about the problem of abuse.

Senator ZORINSKY. Thank you.

The CHAIRMAN. Let me just give you one anecdotal example. During the adjournment period, Ed, one of the Inspector General agents came to me in my office in Raleigh, and he was describing what he was running into in Fayetteville, and Charlotte, and Greensboro, and Hickory, and Asheville, and it was just one city after another. He said the fraud and the abuse of the program is so rampant that it is just impossible to cope with.

Then I talked to the U.S. attorney for the eastern district and I asked him what he was doing about it. He said, "Senator, this problem is so enormous that it is impossible to deal with." He said the same thing.

The agent said that all he needed to do in Fayetteville, N.C., for example, was to go on the street dressed in clothes that would not identify him as a white-collar guy, and let the word be known that he was in the market to buy food stamps.

He said, "Senator, I had so many customers within 24 hours." And he said this is going on everywhere.

Now, if they had adequate staff in the U.S. attorneys' offices—we have three districts in North Carolina, eastern, middle, and western—he said they could spend full-time with 50 men concentrating on this alone.

So we have got a problem with this food stamp program, and as you yourself have said, it is so easy for State and local administrators to give away money that they do not have to raise, for which they are not accountable.

But I am going to send around to your office a little report that I wrote in connection with my discussion with the IG fellow, and I think you will see what I am talking about.[1]

And again, I say what I think I said before you came, that we have a file full of correspondence and memorandums from local administrators who say that, "Our hands are tied. We cannot make a judgment." They see all of this rampant stuff going on.

I guess it is a matter whether we are going to decide that "Big Brother" knows best in Washington, D.C., or whether we have some faith and confidence in the local officials.

Senator PRYOR. Mr. Chairman, I have a question for you, or maybe for the Secretary—that is, if we were to pass this afternoon—the Senate, the House, and signed by the President—S. 1279, how would the situation, Mr. Chairman, with regard to fraud and abuse and the black market be improved? I have missed a link here somewhere. I do not know how we can improve the situation that the chairman makes reference to by passing this bill, S. 1279.

The CHAIRMAN. Well, there is a billion dollars' worth of overissuances; that is part of the answer. But I will bounce that ball to you, Mr. Bode.

Mr. BODE. Well, Senator, I think there is going to be some abuse any time we have a program that is providing billions of dollars to low-income people who need help. There will be someone who will abuse it.

The CHAIRMAN. Absolutely.

Mr. BODE. I do think that by States having a direct fiscal interest in how the programs run, they have control over this grant money within certain broad parameters once it is provided to them, and they have a direct interest in getting that money, as much of it as possible, to the people who need assistance the most. That is why we would see a reduction—a dramatic reduction, I think—in the rate of errors and overissuances.

By cutting back on the overissuances—some of those overissuances result in fraud—that would be a step. Also, it depends on the form of the benefit. The coupons themselves give rise to certain abuses, but that is an issue for the individual State or the Congress to try to solve.

Senator PRYOR. Do you think the States are any better equipped to prosecute and investigate than the U.S. attorneys or the Inspector General that we have in the USDA who is charged with this responsibility?

Mr. BODE. I think State investigations would prove very effective, because there is more State law enforcement manpower within the State. I am really not in a position, Senator, to say whether prosecuting capabilities of those States would be superior. I would assume it would depend on the State.

Senator PRYOR. Now, Puerto Rico, I understand—and I think the chairman will remember, because I really got angry and frustrated about what was happening in Puerto Rico, and I wanted to see some changes, and we saw some changes as a result of a lot of us being very concerned with the rampant growth of the food stamp program.

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[1] See pp. 112-114 for two weekly columns by Senator Helms.

Now, Puerto Rico, I understand, does not use the coupons now. They use cash. Is this correct?

Mr. Bode. That is correct, sir.

Senator Pryor. So I think this might put a different light on this whole problem. I mean, if you go to a cash payout system, you can see where that might—and I underline might—take the black market from them.

Mr. Bode. Sir, I do not think it is a matter of might. I think that, by changing from a coupon to a cash system, you eliminate that black market, the trafficking sort of illegality.

However, that is only one part of the problem. The other part is the actual rate of overissuance. That would take place no matter what the benefit form would be.

Senator Pryor. All right. Let us assume that we went to a cash system. Let us say all 50 States adopted a cash system, if they had the authority. Let us say that some States gave a greater benefit in cash than other States, and the State of California, just for an example, had the most liberal of all the programs. And here was Arkansas, a relatively poor, little struggling State with per capita income at about No. 48 as compared to other States. Would not we see a migration of the problem from the poor to the richer States, to the increased benefits in some States?

Mr. Bode. Sir, I think not, because the basic funding structure provided here is a Federal fund provided to the State to address a purpose. If a block of money on a par with what is now being provided is granted to a State for the State's use in addressing the nutrition assistance needs of their low-income people, California—in your example, rich California, although I wonder about it today, given their State's fiscal problems——

Senator Pryor. Well, a rich State like North Carolina. [Laughter.]

Mr. Bode. I may prefer to stay with California.

The Chairman. It is safer.

Mr. Bode. Anyway, California would still have about the same amount of money per capita, based on the need, coming from the Federal Government, as Arkansas does from the Federal Government. It would still have a Federal grant coming in for Arkansas, so Arkansas' relatively lower per capita income should not hurt the State.

Senator Pryor. But we are really talking here about not just a food stamp program. We are talking about the WIC program, we are talking about the nutrition program—which, I think the figure is 2.7 million fewer children today in the child nutrition program than there were, say, 3 years ago——

Mr. Bode. Well, sir, this particular bill was referring to an optional block grant for food stamps. I would be happy to talk about anything you want to, but——

Senator Pryor. The bill does not include the WIC program and the child nutrition program?

Mr. Bode. This particular legislation is only food stamps.

Senator Pryor. All right.

One final thought. I am sorry that former Mayor Zorinsky left, but he was a mayor on the local level, and I think, Mark, you were in the State legislature——

Senator ANDREWS. No.

Senator PRYOR. Well, anyway, I was a Governor at one time, and I just do not know what a program like this would do to the political system when we have constant changes in administrations. For example, I know in my State, we are one of the three States that still have a 2-year Governor's term—2 years. They are very suspect of Governors in my State——

Senator ANDREWS. Based on past experience, there is a lot of reason to be that way.

Senator PRYOR. By the way, as an item of trivia, only two Governors have ever been elected to anything, Mr. Chairman, from Arkansas, after their term. One was Dale Bumpers and the second was myself. Usually they go to—I do not want to say "go to prison"—but they do not do very well after they leave the Governorship. [Laughter.]

We have some fine Governors, who are still around and doing well.

But I can just see tremendous political, not only pressure but problems, caused by making the feeding of hungry people a political issue on the State level. This I truly believe would present a real problem, not only to the administration, but as a result of the promises or lack of promises. I think we are playing political football on the local level.

The CHAIRMAN. Well, then, you just do not go into the option. You stay where you are.

I have got to stress that this is optional. I do not know exactly how to read your comments about the people of Arkansas. I think they are great people. I cannot translate that into North Carolina. The people of North Carolina are fine folks in the majority, though we have some folks who go to jail, too, down there.

Senator PRYOR. I am going to have to have that stricken from the record, I think. That was in the distant past. [Laughter.]

The CHAIRMAN. In the vast majority, though, the people want prudent administration of all government programs, whether it be Federal, State, or local. And I think the integrity of the people is about the same across this country.

All we are seeking here is an exploration of the best possible way to rein in a program that, frankly, is out of hand by every measurement that I know, Senator. This program is just rampant with things that the people do not want.

Now, I started to say if you do not believe that, ask your people, but I know you have. But I will just tell you that in North Carolina, I do not make an appearance anywhere that they are not grabbing on me and saying, "Look, let me tell you about what I saw." And you hear the same thing.

That is all I am trying to get at. We are groping for a means to do what the people expect us to do. Now, if we get into the optional block grant, and it does not work, Congress presumably is still going to be in business, and we can reverse. It will not be the first time in history.

But I do not understand the attitude that we must not try it, because hypothetically we think it will not work.

Now, a statement has been made about the National Governors' Conference being opposed to this. Well, it sure as heck was not unanimous. The State of California, for example, is very much in favor of having the option of trying this block grant. And if Arkansas does not want it, Arkansas ought not to opt into it. But I do not understand the reluctance to try something that has a high probability, in my judgment, of correcting a large measure of the abuses that we all admit are going on here.

Senator PRYOR. I am not so certain that when the States had basic control over the program that it was any better then than it is now.

The CHAIRMAN. Well, please do not let me offend you, but I have more confidence in the administrators in North Carolina than that. I have dealt with them for 11 years plus, listened to their concerns, and they, too, are people who pay taxes, and they see the money going down the drain needlessly. This bill is a product of not just requests, but demands from all over this country that we try something else. And they say that we can do better.

Now, all I am saying is let's give them a chance to try to do better. And if it does not work, Senator, we could back up and say, "Well, let's run that rat into another hole."

But if we do not do something to straighten up this program, I think you are going to have political discontent all over this country which may very well lead to the abolishment of all of it. I am sensing that increasingly as I go around this country.

So we just cannot sit on our hands and do nothing about it. I think we have got to do something, even if it is wrong, we can back up and try something else.

Senator PRYOR. Mr. Bode, I think I remember this figure from a year ago, but how many people today draw food stamps versus, say, a year ago, and how does it compare to 2 years ago? Is it more, less, the same?

Mr. BODE. Well, it is down a little now, Senator.

Why don't you go ahead and give the numbers?

STAFF (Department of Agriculture). Our most recent data, sir, from October 1983, it was about 20.9 million people. That is up about 200,000 from October 1982, which was 20.7 million.

Mr. BODE. As I recall, our annual average participation in fiscal year 1980, taking Puerto Rico out so that we will have an apple-to-apple comparison, was 19.2 million, and for March 1983, it went up to 22.6 million. So it went up significantly.

Senator PRYOR. Is there in this legislation any flexibility for recession unemployment or anything of that nature, for States to adjust for real hard economic times?

Mr. BODE. My reading of this legislation is that it provides for the Secretary to develop a formula to respond to that sort of difficulty. And we have talked about some of the ways that can be done, with State-by-State unemployment data, for example.

Senator PRYOR. Mr. Chairman, I am not here advocating fraud, I want you to know.

The CHAIRMAN. I know that, I know that.

Senator PRYOR. I know you are trying to find an answer to this. I think we ought to look at the options, but I think we are really talking about the reversal of a pretty major policy. This is a national problem, and I think before we do it, we ought to be very careful.

The CHAIRMAN. Well, as Will Rogers said, "If it ain't broke, don't fix it," but the other side of that is, "If it is broke, try to fix it."

But certainly, I do not question your good faith, and you know how closely we work together. I have no problem about that.

John, we have kept you longer than I intended, and I have got to thank the succeeding panels that are coming before the committee for their patience.

Thank you very much.

Mr. BODE. Thank you, Senator.

The CHAIRMAN. You might stick around a little bit in case we need to ask you some questions, if you can spare the time.

Mr. BODE. OK.

The CHAIRMAN. Thank you very much.

Our first panel consists of Mrs. Betsy Brian Rollins, of Durham, N.C.; Dr. Kenneth W. Clarkson, of Florida; and Steve Larsen, of Sacramento, Calif.

Let me say, Senators, Betsy Rollins is the daughter of a distinguished physician who passed away some years ago, and I served on many boards and commissions with him. He was a great North Carolinian, and she had one of the most delightful mothers anybody ever had.

So it is nice to see you. Mrs. Rollins is director of the St. Philip's Community Kitchen in Durham. She is a member of the President's Task Force on Food Assistance.

And, by the way, I went over to St. Philips and visited, and I commend you on the job that you are doing.

Dr. Clarkson is director of the Law and Economics Center at the University of Miami at Coral Gables, and he is a member of the task force.

Mr. Larsen is chief of the food stamp program management branch of the California Department of Social Services in Sacramento.

Mark, inasmuch as I need to accede to your request that I see the two Congressmen, would you do me the honor of presiding over the committee for just a minute, and Miss Betsy, if you would proceed with your testimony, I will be right back.

[Whereupon, Senator Andrews assumed the chair.]

Senator ANDREWS. Mrs. Rollins, nice to see you again. It was good to have visited with you in my office some months ago.

STATEMENT OF BETSY BRIAN ROLLINS, DIRECTOR, ST. PHILIP'S COMMUNITY KITCHEN, DURHAM, N.C., AND MEMBER, PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE

Mrs. ROLLINS. For the sake of brevity, I will submit most of my comments for the record, and, in turn, I would like to turn to more of the private sector portion.[1]

But before doing so, I must state that it has been a great honor to serve our country as a member of the task force, and I would like to especially commend the chairman of the task force, Dr. James Clayburn LaForce, our executive director, Dr. John Raisian, for their superb leadership and advice. I would also like to single out Dr. Howard Jacobson, who is director of The Institute of Nutrition of the University of North Carolina, who gave me some invaluable assistance in gathering data from places where I was unable to visit.

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[1] See p. 59 for the prepared statement of Mrs. Rollins.

Much of my information has been more than adequately covered by Mr. Bode in the questions that you all have asked, so I will in essence skip them, other than to say that I was very fortunate to visit Puerto Rico, and even though it is an area totally different from the continental United States, I could not have been more impressed with the program that is currently in effect there.

We talked with recipients, with administrators and, unbeknownst to the grocers, I paid a few visits to a few grocery stores to make sure that what I had been told I was absolutely convinced of. And I am very happy to say that I did see checks being cashed, and I saw the money from those checks being used for food. I did not see the money being used for cigarettes, alcohol or drugs. That pleased me very much.

Seeing the creative system of assistance in Puerto Rico has only whetted my imagination regarding similar programs in the United States. My support for a change to an autonomous program of food stamps is further strengthened because of what I see and hear each day as I run a program in the private sector.

Some of the quotes I hear are: "I know I need assistance, but I am treated like a second-rate citizen when I use food stamps or apply for them."

"Even if I had food stamps, I cannot shop myself, and my friends and neighbors will not do my shopping for me because of fear of using the stamps."

"It is a long distance to a store that will honor my food stamps."

"If someone does do my shopping for me, using these stamps, I could be accused of selling them."

These comments go on and on.

I also hear: "I cannot answer all the questions I am asked; they are confusing, they are complex."

And the one that probably distresses me the most is when I hear a mother say: "I do not want my child labeled as a cheat, and I do not want my child labeled as someone that I cannot look after." I think this is extremely distressing.

Another overwhelming argument for the autonomous food program, especially those that are cashed-out, is the competition that would evolve among food suppliers. At present, many grocers change their prices when they see food stamps. And I will assure you I have seen this happen. They simply view the food stamps as Federal money. With recipients using cash in an autonomous program, they may purchase food where it is most economical, not just where food stamps are accepted. This would also enable the needy to stretch their food dollar, thus becoming less likely to run out of food at the end of the month.

No matter how much caring people in the private sector try, we are often at a loss to help the needy access the public sector. It is my belief that the two sectors should complement each other, and with autonomous food assistance programs, they will succeed in their endeavors.

We have a great and bountiful country, one filled with citizens whose creativity and ingenuity can be used on the local level to make life's needs available to all of our citizens.

Senator ANDREWS. Thank you for an excellent statement, Mrs. Rollins.

Dr. Clarkson.

STATEMENT OF DR. KENNETH W. CLARKSON, DIRECTOR, LAW AND ECONOMICS CENTER, UNIVERSITY OF MIAMI, CORAL GABLES, FLA., AND MEMBER, PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE

Dr. CLARKSON. Thank you, Senator.

I am pleased to be here this morning. I have a prepared statement that I would like to submit for the record.[1]

Senator ANDREWS. Let me assure you, your prepared statement will appear in the record in full, just as if given, every word, and Mrs. Rollins, the same thing.

Dr. CLARKSON. Thank you, Senator.

I would like to summarize certain aspects of the statement and try to put my remarks in context with some questions that have arisen in this morning's session.

I have been studying the food stamp program for a little over a decade, and in 1975, I wrote a book about it. A lot of the problems we are talking about today are essentialy old problems. I think in many cases, some of the problems that existed a decade ago have been taken care of, but there is no question that, with the existing Federal structure, if we try to plug all the holes, we are going to end up with 4,000 separate programs, or something like 4,000 separate programs, tailored to each of the communities—and here, I am just using counties as a rough indicator of what I think the final program tailoring would result in.

About a week ago, I spent some time helping to make recommendations to distribute the second round of FEMA funds in Miami. A lot of the information that we picked up in our various travels, and in our capacity as task force members, I think were reinforced in that situation.

We have a lot of different problems in Miami—illegal immigrants, refugees, migrant workers, an unemployment rate that is slightly above national average—and there are a lot of different solutions both private and State-run that are working in Miami.

When we finished our session, I asked the members about some of the recommendations the task force had made, and before I had a chance to get answers to that question, there was, I would say, a rather harsh and severe criticism of what the press has called our block grant proposal. So I asked the members what did they not like about it. They said they did not want to have this block grant shoved down their throats; that they were afraid food prices might go up, that there may be more people coming in to work in the agriculture area. Miami just happens to be a better place to be if you are homeless during the winter, and so we have fluctuating demands by these individuals. And they went on and on about the reasons for not supporting the block grant, many of which parallel the statements that come from the National Association of Governors and the group that represents mayors, and counties, as well.

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[1] See p. 63 for the prepared statement of Dr. Clarkson.

It is interesting to note that the opposition that came out—and we had letters—stated the same kinds of problems as those expressed in Miami. But what we had done in the block grant recommendation was to incorporate those concerns. We made the grant optional, which is a feature of the legislation that we are testifying on.

We provided adjustments for changes in the price of food. In other words, we did not want this grant to not continue to provide a real level of services, so we recommended that it be indexed.

We also recommended that it be changed automatically for differences in the needy population.

And there are certain other aspects that were associated with that proposal, and I have listed them in my testimony. For example, our particular program allows the States to choose any combination of Federal food assistance programs.

Part of the reason for this option, I believe, rests with experiences that we have gained in our travels. For example, in Pensacola, Fla., when we visited the WIC unit, we found, in talking to the health officials and also to the food people there, that they thought the most desirable aspect of the program was essentially the educational process that accompanied it. The food, of course, was important, but the education program that provided these mothers information about how to take care of themselves and their children was going to have far greater, long-term impacts than the roughly $35 per month in food vouchers that they could provide over a relatively short period of time because of the caseloads.

And there were other situations where we found that the individuals could think of better ways to help those people in need in their particular jurisdiction.

We also listened to the complaints, or fears, about the funding aspects. The old block grants—and incidentally, we use a different name, not because we dislike "block grants," but because "block grants" have a particular definition; people understand them as—No. 1, a grant with reduced spending levels, and No. 2, a grant that is mandatory and not optional. So we proposed that the optional block grant have full funding.

We also recognize that when you take the food stamp program, where we have error rates of about 10 percent, we have administrative costs that are about 10 percent, and you have the possibility of combining programs there is ample opportunity for improvement. For example, I think one of the first steps a State would take is to blend its food stamp program with its AFDC program. The AFDC error rates and abuses are lower, so you would immediately have gains. You would also have improved administration.

There is no question that it is almost impossible to design a program that provides benefits to the poor in New York City and for, say, Jackson, Miss. Food prices are very different in those areas. The amount of money you must spend on shelter and other essentials also differs substantially.

So, by having the possibility—and I have to stress that all we are trying to do, and all we try to do in our particular recommendation, and all this bill does, is say, "You have been telling us that we can do it better. Now we are going to give you a chance. We are not going to shove it down your throat, but we are going to give you a chance."

And I think, based on the response we had last week, in testifying before the joint hearings, there are a lot of localities that will continue with existing programs.

But I also think that there will be a number of innovative solutions that will come forth, and as soon as they work—and I believe they will, because one of my concluding remarks says that neither Washington, D.C., nor the task force has a monopoly on the compassion or concern or solutions—as soon as those solutions are found, other communities will duplicate them. That is what I think is so powerful about the optional block grant. It puts forth an opportunity for the organizations to take action based upon their own recommendations.

I made a couple of notes in the early testimony, and let me just emphasize them. On the excessive administrative costs, I think many of those come from the problem of trying to reduce the errors and abuses. You are in a catch-22 situation. You want to serve certain groups that are not served, but you do not want to open it up to the entire population. So you develop a formula that allows you to target. But as soon as you have a formula, you will have people who will engage in what you might call gaming or rent-seeking or trying to abuse the system. This occurs because they can get something that they can either eat or sell.

At the local level, people know when there is a problem. They can identify it. So they do not have to worry about having the complex rules. And, as I stated earlier, certain combinations such as AFDC and food stamps, are a very real possibility for saving money.

There is another aspect—and I wish John Perkins was here. John Perkins was very active in the civil rights movement in Mississippi some two decades ago, and has lived very closely to the programs that essentially have evolved over time to try to help the low-income and minority groups in that particular State. And the thing that John Perkins kept saying is summarized, I think, in his—I do not know whether he came up with it, or he just agreed with it--but it was like a Superbowl game, and one team was the Poverty Brokers, and one team were the Poor. And he kept saying, "Poverty Brokers, 10; Poor, 1."

And what he was saying was that the people who were working in the system, at the Federal and State level, always seemed to do very well, but very often, the poor did not do very well. And he was particularly concerned about how the system had destroyed the black families in the area that he was associated with in Jackson, Miss., as well as the surrounding rural counties. He said, "If we could just get our hands on part of that money, we could do so much."

And when I heard somebody like Perkins, who has been that close to the problem for such a long time, I do not feel well telling him, "You can't do it." There is a chance, there is a real chance, and I encourage you to go to Jackson to see what he has done on his own.

There is another aspect about the optional block grant concept or autonomous food program that I think is important. You very rarely see people volunteer to go work in the food stamp offices. But you will see them volunteer to work in your community kitchens, your congregate meal sites, and the Meals on Wheels program—a lot of those meals are delivered by volunteers.

And I think it is generally true that if private potential funders think the Government is going to pay, they have less incentive to do so, and so many times the Federal dollar chases away the private dollar. This occurs not only in funding, but in trying to meet the needs of those people.

In many communities, particularly those communities where there are lots of elderly, the best way to provide meals is not with food stamps. In those situations people need interaction with other humans almost as much as they need food. But I could not see the Federal Government essentially having a national meals program instead of a food stamp program. It just would not work. If you think we have problems now, you can just imagine what it would be like if we tried to feed the country.

If you have a State that has a lot of elderly, then there is strong reason to believe that they might be one of the first to seek an optional block grant.

In concluding, I certainly am pleased that this committee has worked so hard on this problem. Of course, the block grant concept is not very new at all. In fact, the underlying philosophy behind it goes back to various concepts that were put forth at the beginning of our Nation. I think those principles are still good ideas, and after all, the people, who are financing these programs and are willing to support them are the same ones who can provide those solutions.

Thank you.

Senator ANDREWS. Thank you.

The CHAIRMAN. Mr. Larsen?

Mr. LARSEN. Mr. Chairman and members of the committee, as introduced, I am Steve Larsen, chief of the food stamp program management branch in California's Department of Social Services. Today, I am representing Linda McMahon, the department's director. It is with pleasure that I speak to you today on behalf of California's health and welfare agency.

I do have some written testimony for the record, and if I might, if I could just paraphrase, and have my testimony included in the record.

The CHAIRMAN. That will be fine, and the entire text will be made part of the record.[1]

STATEMENT OF STEVE K. LARSEN, CHIEF, FOOD STAMP PROGRAM MANAGEMENT BRANCH, CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES, SACRAMENTO, CALIF., REPRESENTING LINDA McMAHON, DEPARTMENT DIRECTOR

Mr. LARSEN. Thank you. I am here today to offer testimony in support of the basic provisions of S. 1279. We believe that S. 1279 achieves a good balance as a block grant proposal. The bill provides assurances to Congress that the Federal Government will have control over States' expenditures, and at the same time it provides States with the latitude to design a low-income nutritional assistance program which is efficient, effective, and complements other assistance programs within the State.

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[1] See p. 68 for the prepared statement of Mr. Larsen.

The latter is assured through the provisions which give States the exclusive authority to establish eligibility standards, as well as the amount and the form of assistance to be granted individuals within the States. We believe that these provisions are key to the States' interest in participating in the optional program.

We do have some concerns about the bill, which I would like to share with you. These concerns are technical in nature, but we believe that the right attention to them will further increase States' interest in the bill. When I say "technical," basically, most of them are, I think, addressed at the allocation formula itself. Some of my comments will, I think, address some of the earlier comments of this morning.

The first point I would like to touch on is that of the base year for State allocations. In the bill right now, it provides that the period from April 1, 1982, through March 31, 1983, will be the base period for arriving at a State's percentage of the national expenditure for food stamps. As current as that sounds, there is a possibility that the use of that period may not be equitable to California and to some other States, for two reasons, which follow.

The first reason has to do with the claiming of administrative expenses on food stamp households that also receive AFDC. In California, probably as well as other States, when a person does receive AFDC and food stamps, it is the same eligibility worker who does the job. And up until the current time, all the charges or costs of doing food stamp work on these cases has been charged to DHHS, or in other words, the AFDC side of the Federal Government. As of now, though, the States are being directed to show these charges to the Department of Agriculture rather than DHHS. So, by using this period, we would not pick up those amounts of money. In California, although this is not expressed in the written testimony, this is about a $35 million issue for us. So obviously, we would prefer to see that amount included in the base year.

The other aspect is that since the base year, California's expenditures in the food stamp program have been $7 million more a month.

Senator PRYOR. Now, would you say that again, please?

Mr. LARSEN. Our expenditures in the food stamp program have been $7 million more per month than during the base period. Now, it is possible food stamp expenditures have been higher in other States, as well, but it is a matter of the proportions, when it comes to arriving at the State's percentage of the overall allocation.

So in short, we would prefer using a base period even more current than this one year, which is probably not the world's worst problem.

The second area I would like to address is the provision in S. 1279, that would require the evaluation of possible alternative allocation formulas and a report on them to Congress by 1 year following enactment of the legislation.

On one hand, it seems very reasonable to go ahead and establish the base period methodology and then take a better look at it. It poses a little bit of a dilemma to us, though, in that in our mind, if a State got into the block grant program, and then there was a further study done as to other schemes and other methodologies, this could very well affect what an individual State would then get; obviously, that is why you would be doing it.

If the allocation went down for a State, like California, that could pose problems, because if a State gets into this, it will not always be able to rapidly change the program, because it will have to operate the program by regulations, which requires public hearings, so there will be time involved in it.

So in short, we would prefer if the State does elect to get into this—and I will say more about that later on—to know up front what that allocation amount would be.

The percentage scheme itself, we would also have some comments on. Right now, the bill would arrive at a State percentage, using that base period, and then as I understand it, apply the percentage to whatever funding is arrived at for the food stamp program nationally. Again, that puts the State in a little bit of a position of not knowing what its allocations will be in future years.

We would prefer a scheme where, in short, you go ahead and take the State's percentage of the national expenditures for a period as current as possible, and then setting that allocation at that funding level—in other words, arrive at a level.

Further, we do recommend or urge that the allocation level should then be indexed for inflation and population growth, and further, be adjustable in the event of any severe economic downturn.

We also would urge that the bill should set forth a multiyear allocation for the State, so it is more than 1 year at a time. When I say that, we are not saying that the Federal Government should give us money for 2 or 3 years at one time, but simply let us know what that figure will be, so that we would be able to plan the program for future years.

The final point has to do with that of using USDA food coupons. The bill right now is silent on the use of coupons. We would recommend that the bill be amended to allow a State to use coupons at its option. This provision should include the financial arrangements involved in the use of the coupons by the States. Unless States are able to use USDA food coupons with acceptable arrangements for the redemption of the coupons, States will likely be unable to financially administer anything but a cash assistance program—which, I might add, would be something that the States would certainly want to look at, but we do not want to be foreclosed from doing something else. This is because the allocation formula does not provide for the funding of a coupon issuance and redemption system.

Those were basically the comments I had in my prepared testimony. I would like to add a couple more comments.

In California, 70 percent of the AFDC households also receive food stamps. That is about 381,000 households. That is even a greater number than the nonassistance category, or the persons who receive food stamps only, which is about 234,000 households.

So, in our minds, one of the exciting things that we could look at here would be that of bringing together more closely the administration of the AFDC program and food stamps, just procedurally, in terms of the rules, or terms of certifying persons as eligible.

I think one of the great difficulties at the local level in administering this program, again, is that the same worker does both programs; they are both complex, and they are both subject to great change every year. Those are the things that do make it tough on the line to do a good job. By alining them better, we see ourselves right then and there able to do, possibly, a lot better job with the program as a whole.

With that, I would be glad to answer any questions you have.

The CHAIRMAN. Thank you very much.

Let me just point out that, of course, this bill was introduced last year, which is why we had the base year dates appearing here. There would be no problem at all—and I agree with you—it would be no problem at all to move that forward to December of 1983, or whatever, whatever is possible to do. Your suggestion is very constructive, and when we work on the bill, there will be changes along the lines you have made.

Miss Betsy, I am not going to take long on the questions, and all Senators may file some questions in writing to you, and I would appreciate it if you would respond to them in writing. I wish we had more Senators here, and I wish we had more time.

Miss Betsy, you went down to Puerto Rico, didn't you?

Mrs. ROLLINS. Yes, I did.

The CHAIRMAN. Did anything down there impress you about what they were doing?

Mrs. ROLLINS. I think I could very strongly say there was nothing that I saw that did not impress me. I think one of the keys, and it must be emphasized here, to the success of the program is the leadership of the Director of Social Services, Dr. Collazo, and the auxiliary Secretary of Social Services, who really developed and implemented the program, who is Dr. Blanca La Fontaine.

I was most pleased when we asked the administrators of the program, "Which did you prefer, the federally run food stamp program, or your autonomous program?" and to all of those to whom we addressed the question, the answer was unanimously that they favored Puerto Rico running its own program.

We got this likewise from the recipients. And I think I should also add that the recipients and the administrators of the program were not informed of our arrival prior to our going there, other than Dr. La Fontaine and Dr. Collazo. We walked into places, and they did not know we were coming. So we saw it as it was, and not some grand and glorious party for us.

The recipients certainly did not know we were coming, and we talked with potential recipients who were turned down. And I was very happy to see the absence of anger when they were turned down, because it was carefully explained to them why. In some cases, some of them would reapply.

Another factor that I noticed which pleased me was that the elderly and handicapped did not go to certification offices for their application process. Instead, home visits were made to enable them to better access the program. And further, especially with the elderly, their pride was better maintained because it was done in the privacy of their own homes.

These are some of the aspects of the program that parallel my working directly with the unfortunate, as I do, in Durham. I can expound for hours on that program.

The CHAIRMAN. Let's do it sometime.

Mrs. ROLLINS. I would be very happy to do that. I have one regret in that, trying to be fiscally responsible and prudent with the taxpayers' money, we did not stay as long as we could have, and did not get out into the far reaches of Puerto Rico and had to confine our visits to the immediate San Juan area.

The CHAIRMAN. At the hearing last week—and you were there—before the joint subcommittees, a statement was made, an accusation, really, about the provisions of the autonomous food program recommendations. Let me read it.

It says, "Our concern is that the autonomous food program could very well lead to benefit reductions for certain types of poor families who generally have little political clout, such as poor women and children in the South, many of whom are black."

I do not want to lead your thinking, but that is a sort of canard. There is this argument that somehow, the South, or for that matter, other States, are not going to provide for the poor. We hear this surfacing every so often, and I am sure you have heard it.

How would you respond to that, being from North Carolina, and being as actively involved in helping the poor on a volunteer basis, as you have been. I do not know whether you know about this lady or not, but the program that she has been so instrumental in is just great. I went there one day—unfortunately, I had a bunch of media people following me on that occasion—but Betsy, I was terribly impressed.

Anyway, how do you respond to that suggestion that there is going to be a tendency not to be concerned about the poor?

Mrs. ROLLINS. May I for the record first of all state that I do not find the Southern States repressive, as that quote states. That boils my blood.

According to the proposal and the recommendation that the task force put forth, it must be nondiscriminatory, and that alone would prevent that from happening. I can give you many reasons why, but I think that in itself answers the question.

May I also add that the beauty of the autonomous program is that in a State, for example, such as Mississippi, where there are many single heads-of-households, which this implies, that State could develop a program which makes sure that the single heads-of-household were included, along nondiscriminatory lines.

The CHAIRMAN. I do not see any problem about that.

Dr. Clarkson, I love all my colleagues, including those who disagree with me, but I find myself a little bit astonished at the idea that we must not try to have any innovation, that we must have this uniformity which, in my judgment, is not working adequately.

Do you agree that innovation is needed in this program, and maybe all Federal programs?

Dr. CLARKSON. Absolutely. As I stated earlier, I do not think any of us know how to solve all these problems. And because there are so many differences that lie at the root of the problem—I went into them in my written testimony, and perhaps it would be useful to bring them out here—we found that the food problem was very, very different across the country, and if you try to have a single rule to solve that problem, you are going to miss a lot of people.

Over the years we painfully found that out by adding new provisions to take into consideration, say, high utility costs or shelter costs, new errors and abuses were generated. At the same time that we saw all these differences, we saw people who really had a sense that they could do it better. Sometimes it was explicit—I heard testimony, for example, in Peoria, from a black group that had gone out on their own and made some arrangements with some of the landowners in the area, and they had some of the needy people actually participating in a program where they helped to grow some of their own food. And they were proud of it. Now, that is not necessarily the kind of program that would work in many parts of the country, but it was giving these people some dignity.

I remember a comment that Irma Davis made in Atlanta, when there was some criticism of the workfare program. She said that precisely the opposite was true in Peoria, where participants felt proud about earning their benefits. They wanted to pick up the workplace skills, and they saw this program as a way of getting out of the poverty trap.

These are ideas that surely, if we sat, as I do, in our ivory towers, or as many of the civil servants do in their Washington granite buildings, we would never come up with. But when you are close to the people, ideas will evolve, and they have evolved despite the Federal programs. Can you imagine what would happen if there was an opportunity to actually use the Federal funding to generate more specifically tailored programs to meet the needs of that population?

I would like to add just one quick little footnote on the comment you read. I think that comment goes back to a time when the money was not there, the funding was not there, in some of the Southern States. The funding is there. That is a critical difference. And not only that, we had proposed essentially full current funding, and that it would be indexed, both for changes in food prices and the needy population. And we went even further than that, in the sense that we said it would be restricted to food assistance. In that sense, the task force proposal is far more restrictive than the traditional block grants. We want that money to go to food. And we also recommended that a cap be placed on administrative costs, so that States could not develop their own bureaucracy as a substitute for the Federal bureaucracy. Somehow, it must get down to the county level.

The CHAIRMAN. Well, I was reading the other night about some of the mistaken notions of the past, and there was one scientist who said, "Forget about this business about the automobile, because the minute you start transporting human beings at the speed of 35 miles an hour, they can no longer breathe."

Mr. Larsen, I have got to run along with this thing because we have another panel. Let us talk about administrative expenses in California. Do you anticipate savings in California, administratively, if the optional block grant is approved?

Mr. LARSEN. I cannot give you exact figures because we have not yet designed any program for this, but in general, yes. I think right out of the chute, and to hook in what I mentioned earlier, that by being able to aline the program better with AFDC just right off the top, I think we would be able to achieve significant administrative savings, that of course, we could then use and expect to use in the total program.

Now, if the State would elect to issue the benefits in a form other than coupons, well, then, even further savings, I think, could be realized.

Yes, I think we could be entirely optimistic.

The CHAIRMAN. Very well. As I said, we may file some written questions with you which we would like to make a part of the record, and I hate to impose on you, but if we could ask you to respond to those. And I want to thank you for your testimony and for coming here this morning. You have been immensely helpful.

So with that, we will bid you adieu, and we will call the next panel.

The final panel deserves a gold star for their patience. Ellen Nissenbaum, representing the Coalition on Block Grants and Human Needs; Edgar Vash, with Robert Harmon & Associates, in Washington, and he is also author of "Why Block Grants Work"; and Gene Durman, who is senior research associate of the Urban Institute of Washington—if you will come up, please.

I apologize, but sometimes we get on a roll, you know, and they run a little bit longer than we anticipated. I will say, as we always say, that any prepared statements that may be summarized, the full statement will appear in the record, and you may proceed as you wish.

STATEMENT OF ELLEN NISSENBAUM, ON BEHALF OF COALITION ON BLOCK GRANTS AND HUMAN NEEDS

Ms. NISSENBAUM. Thank you, Senator.

I will try and keep my statement very brief this morning, and I do have a statement that I would like to enter in the record.[1]

My name is Ellen Nissenbaum. I am a staff associate at Interfaith Action for Economic Justice, but I am testifying today on behalf of the Coalition on Block Grants and Human Needs, and I certainly appreciate this opportunity to do so.

Along with the National Governors' Association, the National Association of Counties, the mayors, the American Academy of Pediatrics, and to echo some of the other Senators' concerns this morning, the coalition opposes proposals which would end the Federal commitment to food assistance programs and instead, create a corresponding block grant.

We believe essentially that insuring access to an adequate diet is a national, not a State or local, responsibility. That access is a function of people's income level and food production, which in turn are dependent upon the performance of the national economy and national farm and trade policies.

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[1] See p. 71 for the prepared statement of Ms. Nissenbaum.

Our position is based upon four principles: adequacy of funding, targeting, accountability, and program standards, especially those upholding civil rights. We believe that a food assistance block grant would fail on all four counts.

Under any plan which fixes a State allotment at the beginning of a fiscal year, such as in S. 1279, States will have a built-in incentive to define fewer people as eligible and to reduce those benefits. In that way, they could build up reserve funds to meet unexpected emergencies, such as plant closings, in the future, while ignoring needs at the current time.

Even if the overall spending level would remain stable under a block grant, the amount reaching beneficiaries undoubtedly would shrink as each participating State would set up its own administrative system. There are certain economies of scale built into a national system.

From the State perspective, the adequacy of funding becomes even more problemmatic. S. 1279 would provide a one-time allocation at the beginning of the year, and would base that allocation on the total share of funding that State received from April 1, 1982, to March 31, 1983, and we would echo the gentleman from California's concerns on that point. This would mean, in essence, no adjustment for changes in that State's level of needs relative to other States. A block grant simply would never achieve the same responsiveness as the existing Federal food programs. States facing sudden increases in unemployment and simultaneous losses of tax revenues would no longer receive timely infusions of aid, which is so critical right now.

Finally, a block grant would eliminate the current compensation for low AFDC benefits in some States. Currently, recipients in States with low AFDC benefits receive more food stamps than do recipients in higher benefit States. If those States where low benefits are provided would cut them even further, poor recipients will be made much worse off, and could choose to move to more northern areas, where their benefits are higher, yet where they already have hard-pressed caseloads.

Also under the chairman's bill, States could carry unspent funds over to the next fiscal year and transfer them to other social services. Experience with the block grant for low-income energy assistance indicates the likelihood of that happening. In 1982, about 34 States transferred some of those funds to other programs.

Let me point out our other concerns very briefly.

In terms of targeting, the coalition believes that the neediest should receive assistance first. The current targeting methods are the fairest and most effective. The mayors' conference speaks to a concern that perhaps under a block grant, funds would be spread more around the State and not necessarily to the areas of greatest need. Also, we have the concern that too many funds would be held for administrative expenses and not provided for benefits.

Under the block grant, a State could choose any number of ways to determine eligibility and benefit levels. Yet, given historical trends illustrated by the States' implementation of other block grants, we simply cannot be confident that many would not revert to the restrictive practices which existed in States before the establishment of national eligibility standards under President Nixon.

Many of the States at that time based their benefits on an income level barely above 50 percent of poverty and two-thirds of the 4 million children eligible for the free and reduced-price meals in schools simply were not getting them.

Also, targeting affects the degree to which groups protected by nondiscrimination laws receive their share of Government benefits. For example, formulas for substate distribution can be designed in ways that effectively reduce allocations to areas with large minority, elderly, and handicapped populations, and even though the Federal laws prohibit that discrimination, we are concerned that there may be subtle or other kinds of ways in which discrimination occurs—for example, lack of Federal enforcement of those nondiscrimination protections.

Even today, in State-operated public assistance programs, women and children often receive lower payments than the elderly and disabled. Two-parent families and childless families frequently receive no assistance at all. Migrant workers would face particular hardships under a block grant with a loss of current specific safeguards.

With respect to accountability, most block grants, including S. 1279, would reduce the program data that must be reported; yet without that data, we cannot determine who is receiving what assistance, what fraud may be going on, let alone assessing unmet needs, and whether discrimination is occurring.

Additionally, a block grant could increase the potential for underpayments and overpayments, fraud and abuse, as States develop their own management systems and procedures.

Accountability to the Government and to the taxpayers would be weak or nonexistent, yet accountability becomes even more important, given the great increase in States' flexibility that accompanies those block grants.

The coalition also maintains that even an optional block grant is unacceptable. While optional for the States, it would not be optional for the recipients, the people that we are all most concerned about. If only a few States elected to participate, the residents would have no option to continue under the existing Federal programs. For those most affected, then, the choice could be between reduced benefits and moving to another State.

The extent to which States could freely exercise an option is also debatable, given the tremendous administrative pressures put on them in recent years with all the changes that Congress has made since 1977.

Furthermore, States are working hard now to reduce their error rates to 5 percent by 1985. If current rates remain unchanged, States will be subject to sanctions of $220 million in fiscal year 1985. The penalty would more than double, by the way, under the President's task force recommendations.

Under such administrative and financial pressures, what State would not choose to opt out of the Federal program?

To summarize, then, the coalition believes that the idea of a block grant for nutrition programs is one to put behind us as we contemplate how to eliminate hunger in this country. Its flaws are the inevitable inadequacy and inequities of funding among States, the absence of national eligibility and benefit standards, the potential for discrimination, the loss of income targeting now build into the existing programs, and the loss of accountability over Federal funds. Most of all, a block grant would be the rupture of the Government commitment to insure a minimum level of food to every citizen.

Thank you.

STATEMENT OF GENE DURMAN, SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE

Mr. DURMAN. Thank you, Mr. Chairman.

My name is Gene Durman, and I am a senior research associate at the Urban Institute.

My remarks today will be in the context of a 2-year study that the institute has been carrying on on the block grants created in the 1981 Omnibus Budget Reconciliation Act. I will be essentially addressing the question of what inferences, if any, can we draw from the experience in 18 States in implementing those 1981 block grants. I will be dealing less with the specific problems in the nutrition areas, but will focus on the lessons we can draw from the experience that the States have had.

I do have a written statement, and I will submit that for the record and summarize my comments.[1]

The CHAIRMAN. Your entire statement will be made a part of the record.

At this point, I would say that I have a meeting with the Vice President that I must attend, and that inasmuch as no other Senators are available, Mr. Boney will preside at this time and represent me in asking questions following your testimony.

With that, if you will forgive me for leaving, Mr. Boney will take over the chair, and I appreciate all of you for coming.

Mr. BONEY. Please continue, Mr. Durman.

Mr. DURMAN. While it is always difficult to generalize from one area of public activity to another, it does appear that the States' experience with the HHS block grants have several general implications for the proposed nutrition block grants.

First, based on our observations—and I am not really summarizing the study; if you have some questions about that, I would be glad to deal with those—based on our observations, we would not expect States to divert nutrition block resources away from the neediest among the populations served. The States had discretion in a number of block grants. In the community services block grant, for example, 14 of the 18 States in our study redistributed the funds to their CAP agencies on the basis of the low-income population in the State. That was the primary criterion and the basis for the allocation of the funds.

In the social services block grant, every State that did make changes in eligibility made those changes either to focus benefits on the public assistance population or to lower—in most cases, slightly—the income level of the recipients. In terms of a population in greatest need, there does not appear to be a tendency in the States, at least, over the 2½ years that we have been observing, to divert resources away from the neediest. There may be some tendency for less services to be targeted to the working poor: The poor but not desperately poor. As far as the neediest, there was no indication that there was a diversion from them.

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[1] See p. 81 for the prepared statement of Mr. Durman.

Second, based on our observations we would expect some modest administrative efficiencies from the transition to a block grant. Here again, I will focus on the social services block grant. Thirteen States reported fairly minimal administrative savings, primarily as a result of the elimination of the Federal reporting requirements. Five of the States reported more significant administrative changes. Changes in these States generally focused on integrating the title XX eligibility determination process with eligibility determination for other State services. We might expect a similar result within the nutrition block grant. Most States would experience relatively minimal administrative changes, primarily those resulting in reduced or eliminated Federal reporting requirements.

A few States would probably use this opportunity to more fully integrate the eligibility determination procedures for nutrition benefits with those of AFDC, medicaid, and other State assistance programs. That has been commented on earlier. It has certainly been our observation that some States do; more States do not.

A final implication of our block grant work would require slightly more detailed discussion. We would not expect that States would be able to replace a substantial loss of Federal dollars, nor that they would be able to deal easily with large increases in demand for food stamps over time. This observation stems from several characteristics of the food stamp program, one of which is that the food stamp program differs from the programs that were folded into the block grants. It is much larger, in dollar terms; it is a program of direct benefits to individuals, rather than a service program, and third, it has had very limited State funding in the past.

As members of the committee know well, the food stamp program has grown rapidly, and in many States, food stamp payments equal or exceed those for AFDC benefits. Thus, it is really more similar to AFDC and medicaid than the service programs within the block grant.

Given this, we have to put in context what was a somewhat surprising observation to us, namely, that there was substantial State replacement of dollars in the block grants. Most States did, in fact, replace the lost dollars, but this seemed to be for fairly special reasons.

In the AFDC program, on the other hand, which was experiencing reductions at the same time, relatively few States were able to make up the reductions. Michigan, for example, through a combination of both additional Federal funding and encouragement of local funding, was able to largely maintain the social services program. Reductions in the AFDC program, on the other hand, were passed more or less directly through to the clients. At least one State official posed the issue in the following way—we could totally eliminate our social services program and barely make a dent in our medicaid shortfall. Given this, we might as well maintain the services and look to larger dollar items for significant savings. Essentially, the fact that the programs were small was one of the factors that enabled the States to make some substantial replacements.

In a previous study of 13 States, we have found that AFDC fared rather poorly, particularly in regard to the medicaid program. In these 13 States, medicaid expanded more rapidly than the general rate of spending by some 6 percentage points. In other words, if the State spending were increased 10 percent a year, medicaid would increase 16 percent a year.

On the other hand, AFDC spending lagged behind overall State spending by some 8 percentage points. So there was a 14 percentage point difference in the rate of increase between medicaid and AFDC. In most cases, AFDC spending barely increased, and in almost half the cases, it was actually decreasing over the period we looked at, that was fiscal years 1981 and 1982.

This suggests that to the extent that medicaid continues to be a rapidly expanding program, driven by inflationary factors and health care, the States would be hard pressed to meet commitments to this program and to sustain its contribution to a nutrition block if it is called upon to do so.

As a program of benefits, the nutrition block is most analagous to the energy block program, which had been as a categorical grant, directed primarily as benefits to low-income clients to offset the increased costs of energy. As has been mentioned, there were provisions within the energy block for transfer of some of these funds into other activities. Eleven of our sixteen States exercised their option to transfer funds out of the energy block into other programs, primarily the social services block. Within the block, there was a further change in the uses to which the funds were put. Payments for general heating and cooling declined across the 18 States from roughly 90 percent in fiscal year 1981 to some 76 percent in fiscal year 1983. This decrease in general payments was accompanied by an increase in expenditures for weatherization, which is essentially a service activity, and in emergency assistance, a program targeted toward crisis situations.

To the extent, then, that provisions for the alternative use of funds exist within the nutrition block, the State implementation of the energy block suggests that the direct benefit programs would be less favored than service activities.

A final factor is the fact that the food stamp program has been largely federally funded in the past. The experience in our 18 States suggests that those programs that have been jointly State and federally funded in the past fared better than those programs that had had a different pattern of funding.

States, as I have indicated, made substantial efforts to replace lost dollars in the social services block grant—which had required at least a 25 percent match—but made essentially no effort at such replacement in the community services block grant—which had been 100 percent federally funded. In the MCH block, those programs that had been a combination of Federal and State funded in the past, the MCH title V and the crippled children services were generally favored by the States, while programs that had been strictly Federal-local, such as the SIDS program or the adolescent pregnancy program, were much less favored.

To summarize, then, our examination of the implementation of block grants in the 18 States would suggest: (1) that the creation of the nutrition block grant would not result in a shifting away from the neediest as a target group; (2) that such a block grant would be responsibly and vigorously administered and would achieve some modest administrative gains, and (3) it is unlikely that the States would be willing and/or able to augment their nutrition block grant over time, particularly if faced with sustained inflationary pressures in the medicaid program.

Mr. BONEY. Thank you. Mr. Vash, we will hear from you now.

STATEMENT OF EDGAR VASH, REPRESENTING ROBERT HARMON AND ASSOCIATES, INC.

Mr. VASH. I want to thank you first for sticking with us as long as this has been, because I guess now it has been about 2 or 3 hours. In many ways, I am glad we are now getting down to the shirtsleeves level so we can just sit and talk with one another point by point about what is in the bill, what is desirable, and what our general policy ought to be.[1]

I am reminded, though, just to interject a little humor here, of a story I heard on the circuit, a joke about President Reagan wanting to get some favorable coverage out of the Washington Post. So he invited all the Post reporters over to his boat, put it out on the Chesapeake.

And he said, "Now, I want you all to watch carefully, and write about this tomorrow."

So he walked off the boat, walked across the water over to the land, walked back across the water and into the boat. They all were just amazed and stupefied.

The President was even more amazed and stupefied the next day to read the headline: "President Can't Swim."

So I would like to start with my technical concerns about this specific bill. I would like to start with that, because these are my negative observations, and I do not want the lasting impression to be that I opposed entirely the notion of a food stamp block grant.

After walking you through some of these technical concerns, then I would like to go back and rebut some of the recurring arguments that always seem to be made whenever a block grant proposal of any kind comes up for consideration.

You have got S. 1279 in front of you. I have 15 concerns that I itemized in my written testimony. The first one concerns section (3) and section (f)(1).

Both those sections state that the Secretary is going to pay to each block grant State the total allotment of funds for a fiscal year immediately after the Secretary has determined the amount of such allotment.

The problem I have with that is a problem that we encountered with Office of Management and Budget when we first got around to the 1981 blocks.

In the first place, there is that Intergovernmental Cooperation Act of 1968, which governs all disbursement of Federal/State moneys. Basically, what the Intergovernmental Cooperation Act says is that Federal funds can only be disbursed in accordance with actual and immediate cash needs of the State.

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[1] See p. 89 for the prepared statement of Mr. Vash.

There were a couple of reasons for having that requirement. One is because it allows the Federal Government to cash manage the unspent moneys. If you disburse everything immediately based on a projected need, well, there is no guarantee of what the States are going to be doing with the unexpended balances. There is some evidence in about a dozen or so States, that States are developing some very sophisticated cash management policies. On the other hand, the Treasury Department relies very heavily on this disbursement vehicle so they can cash manage the undisbursed money. Consequently, the Office of Management and Budget works out varying amount of disbursement time schedules for the various blocks.

When I refer to blocks, of course, I refer to the nine blocks created in the 1981 Omnibus Reconciliation Act.

It has worked very well, because the act does require the Federal Government to distribute the money on an actual and immediate need basis. The experience with the low-income energy block, for example, showed that the immediate natural need of the States was in the first two fiscal quarters of the bill's operation. The reason for that is because by definition, the start of the Federal fiscal year is roughly the start of the winter months coming up, and those were the months when the Governors needed the money most. They said, "No, we cannot have our money distributed on a uniform basis. We need the money now in order to cover our actual and immediate energy needs." And OMB, to their credit, developed a policy where they disbursed very rapidly the money needed. And some of the case examples of that, of course, are Wisconsin and Maryland.

So I would simply recommend that the committee add to that citation the following phrase: "and in accordance with section 203 of the Intergovernmental Cooperation Act of 1968." I believe the correct legal citation is (4 U.S.C. 4213).

The second concern I have has to do with the phrase at (c)(1)(A), "The Secretary shall allot to each block grant State in each fiscal year, out of funds retained under section (b)(4) for such fiscal year, an amount which bears the same ratio to total amount of funds retained under such subsection."

Basically, that is the disbursement formula, showing that you are going to essentially hold harmless the same ratio of funds the State received previously.

I have two problems with that citation, first, that the distribution formula does not bear a direct relation with actual poverty or incidence of low nutrition. The program becomes a true entitlement in a bureaucratic sense, to the extent that the States are guaranteed their money, not necessarily the recipient. This provision becomes inflexible to the extent that it does not respond to regional or numerical shifts in the location or level of low-nutrition individuals.

Stated more simply, I think that the single Federal program for food stamps that is ostensibly designed to reach a targeted population would no longer be targeted at all under this provision.

In light of the current economic recovery, in light of new job openings, in light of work incentives, the administration has commendably incorporated into AFDC, food stamps, and job training programs, I think this static allocation formula is archaic, to say the least.

The second problem I have with the distribution formula is that it is inelastic with regard to participation. The fact that a ratio is fixed in accordance with previous year funding prevents Federal officials from considering fiscal disparities that exist between the States, and that also logically prevents any expansion of the program to accommodate increases in the number of low-income individuals. And I should add it also prevents you from reducing the amount of money when you have a contraction of the number of individuals. The allocation would reflect neither recovery nor recession, both of which directly affect the number of individuals who will be categorically needy.

Now, the most obvious alternative is to use the previous year distribution ratio only as the base against which the Federal Government will determine the final funding. That distribution ratio for the previous year, for example, could be held to a fixed differential, such as a 2-, 3-, 4-, or 5-percent shift in the local percentage of previous year's funding.

Now, this distributional float—let me anticipate a concern here—the float that I am proposing would not necessarily reduce the States' incentive to minimize program costs, since the States could (a) be held to a fixed maximum error rate, and (b) retain the powerful cost saving incentives that I recommended in the middle of my written testimony.

Let me digress for a moment and substantiate that a little more by going over three very specific cost-saving incentives that I recommend be incorporated into a food stamp block. They are itemized on page 6 of my written testimony.

First, I recommend that you cap the percentage of moneys that can be used by the States for administrative expenses. This was used with great success in the 1981 block grant, and you can fix the statutory ceiling in the food stamp program as either a percentage of aggregate program costs or fixed dollar figure formula—for example, multiplying the number of eligible recipients by an arbitrary dollar figure. In either case, the existing and proposed penalty for error rates that you right now have in the bill do not constitute a sufficient incentive to leverage efficiencies at the State and local level.

The second way to increasing the cost savings is to allow the States to conduct a limited amnesty for cheaters.

Let me explain this a little bit, because a few States have tried this in other types of programs with great success. I think if you allow or authorize the States to declare a 2- or 3-month amnesty period wherein, if they inform the States about the money that they were overpaid, the money they were not due, and allow them simply to pay it at their own rate, I think that recaptured revenue would be something that the States could use as a cash reserve in times of economic crisis or emergency. Alternatively, the States would be able to use that recaptured revenue to increase the benefit level under a food stamp block grant.

I hasten to add that the Federal Government would not necessarily forego revenue by allowing the States to keep this recaptured revenue, because this is money that the Federal Government has already paid out, and it is already lost, it is gone. And the costs of administering an amnesty program could be absorbed by the current State and local bureaucracies.

The last recommendation I have is a standard recommendation that I have seen in many State and local economic development programs. That is to allow the States to share, 50–50, with the Federal Government the administrative savings that they realize from the State assumption of the program. In fact, you do not even have to stop there. You could increase the administrative saving retention on the State's part to 100 percent. That would be a much stronger incentive to put into this bill for the States to make savings, is to allow them to keep the entire windfall. As it is now written there is not that kind of sharing of the savings, and I think this is an incentive you could add in to increase the savings.

Another technical concern I have is that the bill makes repeated reference to the phrase, chief executive officer, as in subsection 3. As part of the application required by paragraph 1, the chief executive officer of each block grant State shall certify in writing * * *, et cetera, et cetera.

I think this provision has the potential for provoking serious political controversy, akin to the executive and legislative confrontations that occurred in the immediate aftermath of the 1981 blocks.

I regret Senator Helms had to leave momentarily, because the classic example is the confrontation between Governor Hunt and the State legislature. To quantify the nature of this dispute, in the case of North Carolina, the Governor declared that since the Congress had already appropriated the money and delegated the authority to the State, that fulfilled the State requirement for a legislative process—meaning that the Governor had the authority to design how to implement the program—benefit levels, duration, eligibility that sort of thing.

The State legislature bucked on the grounds that the block grant was only passed over to the State legislature. The problem is that the statutory language in the 1981 blocks did not specify the State legislature.

All I am simply recommending here is that you avoid a controversy entirely by adding a phrase: As part of the application required by paragraph 1, the chief executive officer of each block grant State shall, after following established State legislative processes regarding block grants, certify in writing that the State block grant will * * *, et cetera, et cetera.

In the interest of time, I will simply cite two more technical concerns. One of them is A, which says, "assess on a regular basis, food and nutrition needs of needy persons residing in a block grant State."

On a philosophical level, the problem with this is the fact that daily nutritional needs do not vary from State to State. There is a national dietary standard against which nutritional needs and intake should always be measured. That should be uniform. Now, the costs of meeting that standard may vary, such as the cost of food, which does indeed vary from State to State, but the standard itself is inherently static—a minimum dietary requirement just does not vary. On a practical level, allowing the States discretion to define nutritional needs will create the possibility of 53 different nutritional targets.

Policy discretion should not be confused with administrative discretion. Policy discretion allows States to devise their own nutritional standards for their citizens, whereas administrative discretion allows the States to devise the means and extent to which those standards will be met.

I recommend that the provision be altered to read as follows: "Assesses, on a regular basis, the most appropriate and cost effective means for meeting the food and nutritional needs of needy persons residing in that State."

That is significantly different from the way it is written now, because the way it is written now, it simply requires the States to assess what the needs are. The change I am recommending binds them to assess the needs and to determine the appropriate and cost-effective means for meeting those needs.

I will take one, last technical concern. Well, this is probably the most controversial section, actually, subsection 4, which gives the States unbridled discretion to devise a program.

It says, "The Secretary may not prescribe the manner in which the block grant States comply with paragraph (3). Each block grant State may prescribe, and the Secretary may not limit, standards of or requirements for eligibility for benefits under this section." And it goes on to make allusions to workfare and household contribution.

My concern here is a concern that I would share with Ellen Nissenbaum—in fact, I think it is the only concern that I would have agreement with her. That is that this provision ignores the historical linkage between AFDC and food stamps. And you terminate the linkage by delegating unrestrained policy discretion to the States.

I think we can dispense with the question of whether or not the States are compassionate or intelligent. I think we should also dispense with the meaningless question of whether the States are capable of devising a solvent system, consistent with the will of the local electorate, because we all know that, as a good example, the States are now devising or running their own unemployment insurance programs. Those questions are not serious issues.

The principal issue that the committee ought to be aware of concerns whether the two principal income maintenance programs, AFDC and food stamps, are going to be irrevocably severed. Both AFDC and food stamps address separate, distinct needs, cash and nutrition, respectively, that correctly compensate for changes in one or the other category.

My rhetorical question is if the States are going to have complete policy discretion over food stamps, should they not also have complete policy discretion over AFDC, as well?

From a conservative or libertarian point of view, we could answer that question in the affirmative, yes. As a practical matter, there is only one bill right now, and that is this one, that converts one of the two programs into a block grant.

If AFDC is not tied to it, and if the States are not required to link the payment, you are destroying a fundamental element of the social safety net. And I again would like to emphasize that I am speaking from the perspective of someone who supported virtually all of the food stamp reforms proposed by this administration, as well as virtually all of the block grants that were previously proposed by this administration.

The last point I would really leave you with concerns the theoretical notion about the Federal role with regard to income maintenance.

I mentioned that I consistently supported all of the blocks that were previously proposed. I had no problem with them because the blocks were essentially proposing a relatively painless and cost-effective transfer of service and development programs.

The problem with making food stamp a block grant is that fundamentally, its very structure and purpose is different from service and development programs that are now part of the block grant system. The fundamental difference is that food stamps addresses a basic need of low-income individuals, namely, their nutritional diet. Service programs like preventive health and development programs, like CDBG, are relatively painless and cost effective when you transfer them to State and local governments. Those programs can be targeted to reflect the unique needs of resources of the recipient States. Engineering standards, for example, can be tailored to meet the unique highway needs of Los Angeles when it is attempting to use part of the CDBG funds to build the Century Freeway.

The unique aspect of food stamps, however, is only the number of needy recipients. That is the only thing that is unique about that, and that is something that really does not change. Every legitimately needy food stamp recipient has got to meet the same daily nutritional intake in order to avoid hunger and malnutrition. That is based on that need; in other words, that nutritional sufficiency does not vary from State to State.

So my bottom line conclusion is that this is a bill which requires some modification. I think if some of the cost-saving incentives I recommended are incorporated into the bill and if the distribution formula is changed to reflect fiscal disparities as well as actual number of needy people in the States, I think this is a bill that could work in theory.

But I want to stress that this is completely different from the blocks we previously passed, which involve service and development, respectively.

And I would be happy to get into a debate about what the real progress of the 1981 and 1982 blocks were.

Mr. BONEY. Thank you, Mr. Vash. As you say, you have some very detailed suggestions that will be very helpful as we get to the markup stage especially of S. 1279.

Let me ask you initially, as you listened to each other, if you have comments you would like to make about agreements or differences with each other's presentations.

Ms. NISSENBAUM. Just in terms of the issue about States replacing funds. I know the Urban Institute has done studies and I am sure, you are aware of some of the other studies. That is an issue of primary concern for us, that in a program that is as large as the food stamp program, that is federally funded at this point, we have real concerns about the States' ability simply to provide the amount of funds, the amount of administrative resources and energy needed to operate that program at an adequate point.

Some of the other programs that you mentioned, Gene, where States were able to replace, I notice they were smaller programs and were not as subject to changes in demographic patterns and unemployment, some of the up and down factors that really affect the food stamp caseload.

So that I would just echo your point about the States being unable, over time, to augment some of those funds that, perhaps, would be lost.

You really spoke, I think, clearly to our concern about the need to address the level of administrative funds. That is something right now that is clearly mandated by the Federal Government, so that the amount of administrative funds does not detract from benefits reaching those most in need. So we would certainly support your point, Mr. Vash, about the CAP.

However, we stick to our basic position, which is that, along with President Nixon and some of the other groups that have already been mentioned, we clearly see that the role of providing access to an adequate diet is a Federal role, and that is really our bottom line.

Mr. BONEY. With regard to the question of State replacement of lost Federal dollars, the difference between the 1981 block grants and this one is, of course, that there is not a reduction in funding, either in the task force recommendation or in Senator Helms' bill. There is not a reduction, so that in a sense, that issue does not really come into play. The only State contribution currently is 50 percent of administrative costs. That could continue, but even that would be the States' decision.

One more thing on the administrative costs, in addressing the third of Edgar Vash's recommendations, is that the bill does provide the States to share in administrative savings. In other words, the allocation is based on the current Federal share of the administrative cost and the Federal benefit dollar. That is the sort of initial pot the States would get.

To the extent, then, as Steve Larsen from California mentioned and the administration as well, if there are administrative savings associated with that, the State does get the benefit of that. The presumption is they will use that savings for actual benefit dollars, either greater amounts to the same people or serving more people or something of that nature.

So I believe that is included in the bill.

Mr. VASH. Well, you are certainly raising a very important issue, and a very relevant one, because in the event this bill does pass, you are going to see two very antagonistic elements happening the first year or two, and they are going to tug different ways.

One is that there is going to be a tremendous amount of savings made from Executive fiat. That cannot be questioned. That is an unimpeachable, unequivocal, quantifiable result of what happened during the first year of the blocks.

The second pulling factor you are going to have is a lot of confusion on the other hand, and that also is unequivocal and documented with the 1981 blocks—considerable confusion over what the forms are you have to fill out, how you go about certifications, and so on.

Let me backtrack a little bit and document the comment I just made, regarding the savings, because I think it is important to put some statistics in here.

There is a new January 1984 study out by ACIR, the Advisory Commission on Intergovernmental Relations, and they do survey not select States, they looked at all the States. Their conclusion was that in 1981 as well as in 1982, the main anxiety that the State and Federal administrators were suffering from is what they call audit anxiety. They were less concerned about the funding level because with the block grants, they were not required to cover categories of people who should not have been covered in the first place because they did not have as many to deal with. And the maternal and child health program, ACIR noted that supplemental appropriations by the States were very strong, and they quantify that by saying that 45 States consistently offered the basic matching funds that were required by Federal law, and that was, if I recall $3 out of every $4.

Interestingly, they noted that 18 other States were matching Federal funds in excess of the amount that was required by Federal law. That was not a Federal mandate they were complying with. They did it because they wanted to cover them.

Another separate category of 18 States were requiring that some other unit of State government provide an additional match of moneys. Seven States supplemented their initial match of Federal CDBG funds in that block. Nine States expected a subunit of State government to provide a supplemental match for the preventive health.

Now, Ellen and Gene correctly noted that States were augmenting social services block grants. The subtle point here that needs to be emphasized is when a State augments one category of a block, they are taking away from a category of coverage that they did not want to cover before.

Let me give you an example in California. California took the social services block—excuse me—what they did was they eliminated the lead-based paint poisoning program and the sudden infant death syndrome program. Both of those were part of maternal and child health. They cut those. However, they used the savings from the cut to increase two title V components, which are crippled children and mother and child health services.

Who are we, sitting here in the Russell Building, trying to determine—I do not think we should be sitting and trying to determine which categories of people we ought to cover. In New Jersey, for example, rape prevention is a good example. New Jersey people are able to cover more people under rape prevention than before, because the earmarks that were previously set aside for another category of people under that block did not have any relevance; they did not have that many people to cover. Maybe people just do not have the alcoholism problem others have.

If I could just tick off very quickly four examples of where the administrative savings are going to come through the first year——

Mr. **Boney**. All right. Hold on just a second. Let me just ask if the previous panel would like to come back to the table, if they want to have any discussion here in this more informal setting.

You might like to come back to the table and just sit, in case you want to enter into the discussion, so you will be on the microphone.

Now, proceed.

Mr. **Vash**. Well, a lot of this was dismissed as theoretical gimmickry when blocks were first proposed in 1981. The fact is, though, that there were four direct ways that the States were able to realize efficiency in the first year of operation. That is why I preface my remarks by saying, in the first year, the first thing you are going to immediately see is a lot of savings.

The first direct evidence of the savings is the reduction in manhours. Paperwork associated with the 1981 blocks decreased by an estimated 5.4 million man-hours in 1982. The Office of Management and Budget tells me that they look for a minimum decrease of 91 percent when the 1983 experience is over, and that is regardless of whether this block grant bill passes, or some of the other revisions to the administration's block grant bill.

These figures do not include the dollar savings that States have experienced by way of adopting new, simplified techniques for accounting in the blocks, such as voucherizing, or in the State of California, to take that example again, creating a State local block—in other words, enable it to save 10 percent of the administrative program costs by simply passing it forward directly to the county level from the State level.

California is not the only one who actually did that. Oregon, Illinois, Pennsylvania, and New York have incorporated similar approaches into preventive health and some other programs.

A third administrative efficiency that suppresses what I feel are the real administrative savings is the States merger of State and local programs with the Federal blocks. Louisiana and Texas seem to be the most aggressive in this endeavor. Texas, I isolate, because they consolidated not only programs, but duplicative offices that administer essentially the same programs. Maternal and child health, I think, is the one where they are experiencing the most dramatic savings, 18 to 20 percent.

Another form of administrative efficiency is the transfer of funds from some blocks to another. Now, that is something that States might be able to attain through their own State- and local-funded nutrition programs, that they use for restricted categories of people. Certainly, the money involved with the State and local nutrition programs is not going to be as high as you have with the Federal level, but the fact that you would have this block grant available where they can merge existing programs without any sanctions or punitive action would allow for greater savings.

Mr. **Boney**. Let me go back and ask the other panelists to comment especially on Mr. Durman's analysis. Ellen Nissenbaum, the first point, in terms of a block grant that would not result in a shifting away from the neediest as a target group, what is your comment?

Ms. **Nissenbaum**. My concern about that, and your previous statement, which I was going to ask you about, is that if you give States discretion on eligibility levels, benefit levels, and the number of areas that are encompassed in the bill, there is no guarantee that some of that targeting will not occur, that some of the shifting away from the neediest populations. They will have free rein, and as history kind of leads us to see, when President Nixon made the bill a Federal program and a national program, there were some States where the neediest populations were not being served, where there was discrepancy and different sectors of the populations that were getting benefits.

So my concern is that there are not enough safeguards built into the bill to make sure that discrimination in targeting—whether that is subtle or overt or covert—will not happen. And I am not clear and I am not really confident that the bill provides the adequate safeguards.

Mr. BONEY. Well, if I understood, his comment was that by the same token, I guess, the other block grants did not provide that. It is more what the anticipated, net effect is, rather than a legislative requirement.

Mr. DURMAN. Yes. Just to reiterate the point, there was a lot of concern with the 1981 block grants, for example, in social services, that the elimination of the requirement that 50 percent of the Federal funds go to AFDC recipients would result in a substantial change in the way States offered their service programs.

That was what we looked at in our study, and we found, by and large, that the States did not shift away from public assistance clients. If anything, they shifted to public assistance clients——

Mr. BONEY. You included in your survey some of these allegedly repressive Southern States?

Mr. DURMAN. There are 18 States. I can give you the list.

Mr. BONEY. You can provide that for the record. But basically, it was a representative group?

[The following information was subsequently received by the committee:]

REGION AND STATES

East—New York, New Jersey, Vermont, Massachusetts.
Central—Michigan, Minnesota, Ohio, Illinois.
South and Border—Florida, Kentucky, Missouri, North Carolina, Texas, Virginia.
West—Arizona, California, Colorado, Oregon.

Mr. DURMAN. Yes. It was designed to represent large States, small States, and be geographically representative. We were impressed with the consistency across States if there were some changes—there were less dollars—even though there was substantial replacement, it was not 100 percent replacement—they were to emphasize the retention of benefits for the most needy. Most officials said, in effect; "All right, we are going to make sure that all of our public assistance clients get daycare," or "We will introduce a fee for people above a certain percentage of the State's median income," or "we will drop eligibility from 70 percent of the State's median income to 65 percent of the State's median income." In other words, it was a shifting back to essentially the poorest of the poor.

Ms. NISSENBAUM. Two points about that. The ultimate point is the one that you just made, and that is that fewer dollars ultimately will be serving the poorest people. Whether the targeting is shifted in different patterns, it would be different block grants in different States. And other people have underscored that the food stamp block grant is a very different kind of a concept than some of the other programs, simply because of the caseload. That is what we are ultimately concerned with, is the number of dollars getting to the people who need it the most.

The second point—and I would refer you to my testimony for greater detail—is that in the social services block grant, for example, they did do some tightening up of the day care program, one of the programs that serves particularly the low-income children and their families. In the education block grant, States were given discretion to design fund distribution formulas and told to take account of only certain high need factors. We are concerned that similar discretion would be provided to States under S. 1279. In a survey that our coalition did recently, only 2 of the 11 States we looked at distributed more than 50 percent of their block grants on some of those factors, ignoring some of the other need factors.

So there have been incidences where targeting—either there has been some problems with targeting, or just shifting of funds from programs that serve more people than other certain programs.

Mr. VASH. The direct response, of course, is that more money does not necessarily mean more coverage. As an example, I would cite the State of Montana. Montana had a 15 to 20 percent reduction in program costs in maternal and child health. Why, then, did participation in maternal and child health increase by 11 percent?

This is where we get into the whole question of efficiency. As Jack Kemp says, when you subsidize something, you get more of it. Is throwing more money at this necessarily going to solve it? If anything, I think, if you want to pump up the money for these food stamp programs and other welfare programs, if anything, you are going to reinforce the cyclical dependency cycle of some of the people who are capable of working.

Now, I want to emphasize that I think there is a hardcore base in the food stamp program who are structurally unemployed and ought to be covered. But you know, again, we are talking about trying to weed out the people who really could work and weed out the people who really ought to be covered.

So it is not enough to set up a strawman and say, "Well, what if States decide not to cover everyone?" The evidence Gene and I have presented—if not in his written report, in my oral remarks now, reference to Montana, California, Texas, and Pennsylvania—show—I have quantified that there are more people being covered.

Mr. BONEY. Dr. Clarkson?

Dr. CLARKSON. Let me just add something on this targeting aspect. There are some existing Federal programs where States have the ability to target. One of them is the WIC. The State of Florida have essentially set a lower level at 125 percent of the poverty line as the gross income cap. They set that limit so they could serve literally everyone, so there are no turn-aways. In fact, they have more funds than necessary to handle existing case loads at the 125 percent level, and perhaps they will increase the level in the future. That was one way to handle the problem. They knew the WIC program was not theoretically fully funded at the Federal maximum eligibility level, so Florida has retargeted its funds to lower income populations.

I think part of the problem in terms of the funding and potential shifting is that there is a misunderstanding, because these particular programs are going to food assistance, so you cannot use them for something else, and——

Ms. NISSENBAUM. Although under this bill, you could. It clearly states in the chairman's bill that you can shift funds to other programs, and that happened, as I have illustrated, with the energy money.

Mr. VASH. You only can shift the unexpended balances, though, right?

Mr. BONEY. That is correct. It is only the unexpended balances after the first year, and then, only to Federal social service programs.

Ms. NISSENBAUM. Which may not be targeted to strictly low income.

Mrs. ROLLINS. May I add a point there, Tom?

Ellen, I understand where your concern is coming from. I think one of the purposes of this hearing is that, as Tom said, when they do mark up the bill, some of these concerns could be included in this bill, and that is the value of this testimony.

I would also like to add to what Ken said. When he and I were personally in Pensacola talking with I believe his name was Dr. Wilson, who ran the WIC program, where their targeted percent of poverty is lower, that they still had room to accept people within the program, and were extremely happy with it, and had no desire to increase it to the 185 percent. And they knew, through the health department and he as a pediatrician, they were unable to find any evidence of children, mothers, infants, at risk, even those coming into the health clinics ill, or at the well-baby clinics.

Am I not correct, Ken?

Dr. CLARKSON. Correct.

Mr. DURMAN. I would like to address this briefly. I find myself in between, both physically and perhaps philosophically, between Ellen and Edgar. In this vein, I would like to at least address the issue of administrative dollar savings.

Now, I like Edgar, am impressed with the degree of change and innovation that has occurred in the States. A number of States have made important changes, as they perceive it, as a result of the block grants.

The dollar savings, at least in our interviews with State officials—we have talked to State officials in all 18 States—have not been as great. That is not to deny the other part, and I cite some examples in my written testimony of the changes that have taken place.

Dollar savings are difficult to quantify. But for example, in the social services block, we did take a look, and 11 of the 18 States were able to give us a quantified estimate of their administrative costs. We compared 1981 with 1983 levels of administrative spending. We found that of those 11 States, 6 decreased the administrative share, 3 increased, 2 held essentially constant. Overall, the administrative share declined from 9.9 to 9.2 percent of their total services program.

So my position would be that, yes, there would be some administrative savings, but not enormous.

Mr. BONEY. Modest, in your testimony, modest administrative savings.

Mr. DURMAN. Yes.

Mr. BONEY. But generally, regardless of the magnitude, there seems to be the view among the witnesses that there would be administrative savings, to some extent from the block approach.

Dr. CLARKSON. And I think your third item, in terms of merging food programs with other programs is most promising. When you can practically combine the AFDC with food stamps in a block, States will choose to do it that way. When there is a huge population overlap, they can fold in other programs, as well. That is what you are really talking about there, isn't it, trying to provide access to basic essentials.

I think then you will begin to see some significant, as you were suggesting, savings.

We do not have anything like that now, so we cannot really measure it.

Mr. VASH. Of course, one problem we have with the merger, Tom, is the question I have about the error rate. If, for example, under the workfare option of the food stamp block, a State that is now doing an AFDC workfare program under the AFDC authorization, if they decide to merge that and make one giant workfare program, and suddenly, you cannot really tell what part of it is being funded by the food stamp moneys and what part is AFDC, is the whole program held to that fixed error rate?

That is one concern that I think ought to be worked out, because from a programmatic point of view, that is the sort of thing that the administrators are first going to ask. I do not think that should hold up the bill, but I do think that comes to a concern you have got to address.

Mr. LARSEN. I am not sure I heard you right. Are you advocating that even with block grants, there should be error tolerance by the States for administering—did I hear you right?

Mr. VASH. Well, the principal argument was that a food stamp block grant is inappropriate unless there remains a Federal role regarding the level of nutrition and an open-ended funding mechanism.

Does that answer your question—otherwise, the bill as it is now written would be hard for me to support.

Mr. BONEY. All right. Just for information, on the very specific proposals you have, Mr. Vash, a lot of the general protections that are in Senator Helms' bill were taken from the 1981 block grants that were enacted. Some of the comments—for instance, the one about the executive officer—I have a suspicion that the State law has now caught up, and that although all the 1981 block grants say "executive officer," in practice, it amounts to what you describe as consultation with and approval of the State legislature.

So, certainly, those will be helpful as we see how things have become and look at the language in those bills.

Well, I think it is good to have this kind of, as Edgar Vash described it, "shirtsleeve discussion." And, as Senator Helms said before he left, other Senators obviously reserve the possibility of sending you followup questions to this.

We certainly appreciate all of your participation.

Thank you very much.

[Whereupon, at 1:15 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. JESSE HELMS
A U.S. SENATOR FROM NORTH CAROLINA

Today we want to examine S. 1279, a bill which I introduced to establish a State block grant option for the food stamp program.

Under this bill, any State could opt to operate a low-income nutrition assistance block grant--designed by the State--in lieu of the present Federal food stamp program.

This proposal is almost identical to legislation that was included in the Senate-passed reconciliation bill in 1982, S. 2774. However, House conferees did not agree to include the provision in the final version of the Omnibus Budget Reconciliation Act of 1982.

The block grant concept has received additional attention with the recommendations of the President's Task Force on Food Assistance. The Task Force's primary recommendations was that all current food and nutrition programs, including the food stamp program, should be available as "autonomous food assistance programs" at the option of each State. The legislation I have introduced is consistent with the concept advocated by the Task Force.

Under the autonomous, or block grant concept, individual States would be free to set standards and procedures for providing food assistance to the needy in each State.

This proposal will provide States with just such discretion on how to operate their programs. As such, it will enable those States (that wish to attempt it) the ability to strike out in a new direction. States could tailor nutrition assistance to fit the individual needs and desires of their citizens.

Despite differences in conditions and cost of living standards among the States, the current program provides uniform, inflexible standards. It should be obvious that the current rules and regulations do not necessarily work the same in rural North Carolina as in inner New York City. Day-to-day program operations specified for urban areas do not accommodate the individuality of small towns.

We need not be confined to the "solutions" of the past in determining how best to manage food assistance for the poor in the future. I am convinced that creative and innovative proposals would be formulated and implemented by the States--if they had that option available to them.

The present array of Federal regulations are almost inherent to the present food stamp structure. Because the Federal government bears 100 percent of the costs of the program, Congress has had to ensure that program operations--administered by the States--are responsible. Unfortunately, for too many years, the only State interest in the food stamp program was to increase participation. To do so did not cost the State, but rather was financed by the Federal government.

Frankly, I see no reversal in this trend--given the financial arrangement in which the Federal government pays all benefit costs, and the States assume little responsibility. The only alternative is increasing sanctions against States for poor administration--another Task Force recommendation, and one included in the Administration's lastest budget recommendations.

I believe this block grant proposal will provide the right mix of State responsibility--with a set amount of Federal funds each year--and State flexibility--by providing significant State discretion and independence--which should prove to be a successful approach.

Indeed, the implementation of a block grant in Puerto Rico in 1982--which was not optional--has already begun to demonstrate the success of this formula.

Puerto Rico's block grant, unlike the optional character in this legislation, also contained a reduction in anticipated spending. The Commonwealth undertook a thorough analysis of the then-existing food stamp program and made major reforms with the implementation of the block grant. Puerto Rico decided to issue monthly benefits in the form of checks, rather than coupons, which could be cashed and used for groceries. Eligibility levels were modified, and numerous minor changes were made in administrative procedures.

While I do not regard the "cash" system used by Puerto Rico as the likely method to be employed by all block grant States, it certainly should be the State's option to decide. I have resisted efforts to limit Puerto Rico's discretion, and I would oppose any effort to limit other States as well.

Obviously, other forms of issuance might include a voucher or coupon system (similar to the current food stamp coupons), actual commodities, and "commodity-specific" vouchers (such as those used in the WIC program). Additionally, it seems likely that some form of computerized system--be it a food stamp "credit card" or some other technological innovation at the grocery store--will occur in the future.

Obviously, States may want to suggest an alternative to the specific formula which I included in the legislation. My view is that the most fair approach is to use the percentage of a State's share in the national program. For instance, North Carolina receives about 2.68 percent of the national food stamp budget. Under the block grant formula included in S. 1279, North Carolina would receive 2.68 percent of whatever the national appropriation is for the food stamp program.

The Task Force recommended making allowances for shifts in State populations as needed. My method to accommodate this concern is to instruct the Secretary of Agriculture and Comptroller General to suggest alternative formulas for future fiscal years, from which the Congress may choose.

I have patterned this block grant approach after the 1981 block grants adopted in the Omnibus Budget Reconciliation Act of 1981. However, unlike those block grants, S. 1279 provides optional participation.

Standard protections--for audits, against use of funds for construction, nondiscrimination--are included.

We have a variety of witnesses, and I welcome each of you here today.

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, S. 1279 would permit a State, at its option, to operate a low-income nutritional assistance block grant program to finance expenditures for food assistance for disadvantaged persons within the State in lieu of operating a food stamp program.

The issue whether an optional block grant program should be authorized by Congress has been a subject of debate for some time. Recently, the President's Task Force on Food Assistance brought up the issue.

In its report, the Task Force recommended that Congress make participating in any or all existing food assistance programs optional for the States, under the condition that a State choosing to operate an autonomous program cannot divert funds for food assistance to other uses. S. 1279 does not appear to preclude the use of block grant funds for other uses and may therefore, allow a state to shift some of the block grant funds into other social service areas.

Sensitivity to local needs and priorities is cited as one of the advantages of block grants. Additionally, States would be permitted to design their programs to meet the particular nutritional needs of their own low-income residents.

While these are worthwhile objectives, we must also consider, and resolve, the issues raised by those who oppose the block grant approach before we act on this legislation.

Of particular concern is that the nutritional needs of low-income Americans would no longer be addressed on a national basis since the uniform eligibility and benefit standards under the food stamp program would not apply to programs developed by States. The amount and type of assistance available to low-income persons could vary greatly depending on the State in which they reside. I doubt that any of us want a repeat of the situation that existed prior to the late 1960's when States were free to set their own eligibility standards, and, in some cases, such standards were set well below the poverty level.

There is the additional problem that States operating block grants might not be able to respond promptly to increased demand for food assistance in time of increasing unemployment because a State's grant would be set in advance. Thus, the newly-unemployed poor would have to be denied assistance by the State, or across-the-board cuts in benefits would have to be made to serve all eligible persons in the State.

There is also the possibility that low-income persons could be subjected to frequent changes in the type of assistance available to them. In some years, a State may elect to run its own food programs with block grant funds; in other years, it may decide that a food stamp program should be operated. Frequent shifting from one program to the other would result in substantially higher administrative costs, which would ultimately reduce the amount of funds available for assistance.

In summary, Mr. Chairman, I have great reservations about the block grant proposals -- optional or not. Based on the information available to me, I cannot support a block grant proposal for any food assistance program.

Of course, I realize that the purpose of today's hearing is to gather additional information concerning the merits of the block grant proposal in S. 1279, and I look forward to the testimony of today's witnesses.

STATEMENT OF HON. RUDY BOSCHWITZ
A U.S. SENATOR FROM MINNESOTA

As a Senate Agriculture Committee member concerned about the problem of hunger in America, I wish to raise several issues concerning the block grant proposal.

We are now at a point in the evolution of nutrition programs where we must make difficult decisions. Our well intentioned efforts have been successful in many regards, yet I am convinced that we need to take a serious look at our nutrition programs. Though hunger is difficult to quantify, as the President's Task Force on Hunger points out, the reality of hunger persists after many years of Federal programs addressing the problem of feeding the hungry. We are at a point where we need to evaluate our shortcomings and learn what we must do to improve our nutrition programs. We cannot rely on simply spending more on the programs or passing the problem on to the States in the form of block grants. Money unwisely spent, is not a solution and will only increase the deficit. Block grants have their place, but not in nutrition programs. We must not hastily conclude that either spending more money or block grants is the solution to present nutrition problems.

The block grant debate centers around two fundamental differences: flexibility versus uniformity. Block grants are designed to give states the flexibility to tailor programs to fit their unique characteristics. Block grants allow for more flexibility and less waste in administration, hence a larger share of appropriated funds is said to actually get to the recipients. Uniformity in nutrition assistance, is supported for a number of sound reasons. It is my belief that the small efficiences gained by instituting block grants, whether or not optional, are not worth the loss in stability, fairness, and control.

Nutritional requirements do not differ appreciably, if at all, from state to state or locality to locality. However, they do vary from individual to individual, yet by no stretch of the imagination can we design a program to meet every individual's daily requirement. Admittedly we are dealing within the confines of averages. On this premise I base my fairness argument. Regardless of whether appropriations are based on past expenditures within states or a formula (S. 1279 provides for the evaluation of alternate formulas) some basic assumptions regarding the number and need within each state are necessary. Herein lies the problem; though states set their own policy, including eligibility requirements, the Federal government will appropriate funds under assumptions quite unaffected by those individual policies. An example makes the problem clear: Suppose a state decides to spread benefits over a larger, more broadly defined class of poor, but the Federal government appropriates under rigid assumptions based upon population and Federal nutrition standards. Since the recipient group is larger, either the poorest of the people will be left with less than others in their category in other states, or states will have to make up the difference in what becomes, in effect, a more generous assistance program. Considering the condition of most state budgets, the former is likely. Since Federal nutrition standards aim at the average individual, with a safety market to account for individual variances, any loss to the neediest people can be very injurious.

Why should a group of people be treated any differently in one state than in another when nutrition requirments, on the average, are the same for all in the group? Appropriations and policy must go hand in hand or discrepencies will arise.

My opposition to nutrition block grants is not out of distrust of States. The compassion of state and local administrators is not in question. In fact, in my example, the actions of the state put upward pressure on the benefits in the program. Widening the recipient group is very compassionate, and politically desirable I might add, but if not linked with increased appropriations it can be deterimental to the neediest groups. Pressures to broaden the recipient group is not unlikely. The state political arena is smaller, and more volatile than at the Federal level. A food program will receive more attention in a situation like this, and more demands from the middle class which can gain from a larger program. Leaving states to make policy decisions leaves them open to other political pressures. Rural-urban and other factions are likely to form. Even the decision whether to accept nutritional block grants may become a political football. States with high error rates may opt for the block part to escape federal pressure. The stability of such a system would be questionable. The "safety net" of assistance programs would be jeopardized as food stamps would no longer be linked with AFDC and other programs. Different levels of government, without coordinated policies regarding goals or eligibility could pose serious problems for some who may, for some reason or another, be ineligible for needed assistance. We may leave holes in the safety net.

There are many questions that need to be answered. Could migration occur where heavy population centers border on state lines? Will Federal levels of administration really cut costs significantly if half the states do not accept block grants, or those that have are able to rescind at any time? How does the Federal government efficiently evaluate an assortment of programs with different reporting methods and documents? Do we want political pressures at all levels to decide our nutritional policies?

Hunger is a national problem that needs a federal solution. Block grants, though useful in many circumstances, are not the answer for nutritional programs. Letting go of uniformity and control of equality is not a step forward in our attempt to feed the hungry.

STATEMENT OF HON. JOHN W. BODE
DEPUTY ASSISTANT SECRETARY
U.S. DEPARTMENT OF AGRICULTURE

Thank you Mr. Chairman, for this opportunity to comment on S. 1279, your bill to establish a State Block Grant Option for the Food Stamp Program. The concept of a State option to receive program funds in the form of a block grant is one which the Reagan Administration enthusiastically supports. We commend you and the bill's co-sponsors for presenting this innovative approach to the Congress for consideration.

We believe that a block grant option is a desirable method for fitting federal programs to the specific needs of a given State. It allows responsible State and local officials to tailor program design and benefits to the particular requirements of their people, and it clearly assigns program responsibility to those public servants who are most accessible to the State's electorate. It recognizes that knowledge and expertise concerning what is "best" for program recipients does not reside exclusively in Washington, D.C. Clearly, skill in program design and execution exists among the elected officials and government professionals at the State level.

This is a nation of great diversity. As a result, there is all too often a "mis-fit" of federally mandated programs to unique local and State circumstances. This reality demonstrates the need for a block grant option. Of course, the virtue of an option lies in the fact that it allows States a basic choice. States which choose not to exercise the block grant option may retain the federal programs. Even if only one State exercises the option, we believe it is important for the choice to exist.

In fact, the Congress, when confronted with special circumstances, has already turned to the block grant as a solution. The Omnibus Budget Reconciliation Act of 1981 gave the Commonwealth of Puerto Rico the authority to structure its own low-income food assistance program. A program suffering from fraud, coupon theft and trafficking was changed by the Commonwealth government into a food assistance program which more efficiently delivered benefits to needy citizens.

We do not view the Puerto Rico program as an exact blueprint for the States. Puerto Rico has served as a unique "laboratory for Federalism" for human services programs. Federal funding for programs such as AFDC and Medicaid is provided to Puerto Rico under a special relationship, distinct from that used for the fifty states. Certainly, our support of the Commonwealth's discretion in determining its program design should not be construed as an endorsement of program cash-out. Nevertheless, we view the Puerto Rico experience as a positive indication of the success which block grants can achieve by decentralizing Federal programs in response to local circumstances.

The Food Stamp Program in its present form provides valuable and necessary benefits to many needy persons in this country. It remains the mainstay of our family nutrition efforts. However, we must admit that the program is not without its problems. About $1 billion is misspent each year. Too many States have unacceptably high error rates. Many States, in turn, express frustration with federal program requirements with these and other program issues. We feel that some States, operating under block grant authority such as that proposed by your bill, Mr. Chairman, could devise even better ways to deliver food assistance benefits to the citizens of their particular States.

At this time, we are assessing a number of alternatives for the details of a food stamp program block grant. Therefore, I am unable to provide you formal Administration positions on those details today.

As always, it is a pleasure to present the Administration's views to this Committee. I would be pleased to answer any questions.

STATEMENT OF BETSY BRIAN ROLLINS, DIRECTOR, ST. PHILIP'S COMMUNITY KITCHEN, DURHAM, N.C.

Good morning, Mr. Chairman, Senators. My name is Betsy Brian Rollins. I am the Director of the St. Philip's Community Kitchen in Durham, North Carolina, and I had the great honor of serving my country as a member of the President's Task Force on Food Assistance. I am pleased to be here today to discuss the issue of Block Grants for Nutrition Assistance Programs.

Before proceeding, however, I would like to commend our chairman, Dr. J. Clayburn La Force, and our Executive Director, Dr. John Raisian, for their superb leadership and support, and I would like to thank all the many individuals who testified and gave us much valuable information, especially Dr. Howard N. Jacobson, Director of The Institute of Nutrition of The University of North Carolina.

As you are aware, the Task Force has recommended a system of optional state autonomous programs that would allow each state to adopt its own mechanism for providing food assistance for its needy residents. I believe our proposal is very different from previous block grant proposals. We therefore hope that it will be given careful consideration. The essential features we propose are as follows:

- The program is optional to the states; one, several or all existing programs may be included; or a state could choose to keep the system currently in use.

- The program would continue to provide full federal funding for both benefits and state administration.

- Federal support for these programs would be guaranteed and restricted to food assistance; funding would be indexed to be responsive to changes in the size of the state's population in need and to changes in inflation. Funding could be adjusted throughout the year as economic conditions change.

- Provisions could be included to assure that local communities do not bear increased administrative costs.

In addition, we have indicated that federal guidelines may be designed to assure that funds are targeted toward the needy and that the programs are not discriminatory.

While sitting on the Task Force, I had the opportunity to hear the testimony of numerous witnesses. Time and again we heard complaints of the complexity of federal regulations, the rigidity of these regulations, and the inability of programs to meet the individual needs of those less fortunate than we. In particular, the Food Stamp Program as we now know it has problems, but old methods of resolving those problems have not worked--they have just increased the complexity and inefficiencies of the program. The proposal which we here outlined suggests a method to deal with these problems and hopefully resolve them so that the Food Stamp Program can attain its objective to provide low-income people with the means necessary to obtain the food they need.

The block grant proposal will give states the flexibility they desire to establish programs which suit their particular needs as well as allowing them to become more efficient. For example, a state like Mississippi with a history of a large "traditional" poor population—may choose to design a program which would meet the needs of single-headed households, and of people living in rural areas. A state like New York could design its programs so that it takes into account the problems which are encountered in an urban environment—higher rents and food prices.

Some states have problems with food stamps because some stores which are located in areas with heavy food stamp populations charge higher prices at the beginning of the month when recipients have money. At the end of the month, however, when many recipients have no money or stamps, prices come down. This is a discriminatory practice, and one which should be dealt with. Under the autonomous food program states could choose to stagger the delivery of food stamps in an effort to prevent such unfair practices.

As a member of the Task Force, I was privileged to visit Puerto Rico, where I observed their Nutritional Assistance Program, which is currently under a block grant. I was very impressed.

Puerto Rico faces an entirely different set of circumstances than do other areas of the United States. In 1981, before Puerto Rico converted to a block grant, 56% of the population participated in the Food Stamp Program at a cost of $915 million or 8% of the federal program expenditure. In addition, the Puerto Rican Food Stamp Program was plagued by fraud and high error rates.

Under the Omnibus Reconciliation Act of 1981, Puerto Rico was given $825 million annually beginning July, 1982, to cover the full amount of benefits and 50% of administrative costs. The Department of Social Services, under the leadership of the Secretary of Social Services and the Auxiliary Secretary, Blanca La Fontaine, designed a program which would deal with the unique problems and circumstances faced by Puerto Rico. They decided to cashout their program,mailing high security checks to recipients. They also established a nutrition education program. Most importantly, their program retained those regulations which the Commonwealth felt were necessary, and modified others to further control fraud and abuse. Necessary changes in these regulations can be explained to the public and implemented in a matter of days.

Administrators made eligibility requirements more stringent so that only the poor of Puerto Rico would receive benefits. Benefits levels were reduced by about 10% to bring them more in line with Puerto Rico's food prices. They established a variable benefit rate so the program would be responsive to changes in the economy since Puerto Rico's employment rate is very unstable.

In addition, administrative costs were reduced by almost $10 million. This was achieved by, among other things, the elimination of the need for the following:

1. police services at local offices

2. salaries and benefits for cashiers

3. coupons, insurance, and fidelity bonds
4. coupons, transportation services
5. private bank lockers and vaults
6. printing costs of coupons
7. certification of stores

Although participation decreased by approximately 10% during the first six months of the program, and benefits were reduced, recipients and administrators liked the new program more than the original Food Stamp Program. This is especially true of the handicapped and elderly populations, since certifications are made during home visits. This allows questions to be asked privately, it reduces fraud, and it enhances opportunity for education about nutrition and budgeting.

Around 425,000 HOUSEHOLDS ~~recipients~~ are served by 4,000 agency employees. These recipients were able to avoid long lines to receive food vouchers since checks for cash were mailed to them. In short, recipients were given cash; and therefore, the stigma associated with participation was eliminated. Receipients felt that they could manage their own money as opposed to being told how to spend it by the government. In addition, grocers could no longer charge recipients higher prices since they were using cash. In short, the cashout made it possible for recipients to maintain their dignity and pride.

Administrators like the block grant, due to its simplified implementation. Since checks were used, it was easier to monitor fraud or abuse because they could determine when and where checks were cashed. "Brokers" who used to buy food stamps for a fraction of their face value no longer had a market. Finally, contrary to the beliefs of many, cashing out the benefits did not have a significant effect on food purchases. Most recipients cashed checks in food stores.

Seeing the creative system of assistance in Puerto Rico only whetted my imagination regarding similar ideas in the United States. My support for a change to an autonomous program for food stamps was further strengthened because of what I see and hear from Food Stamp participants every day:

- "I know I need assistance, but I am treated like a second rate citizen when I use Food Stamps or apply for them."
- "Even if I had Food Stamps, I cannot shop myself and my friends do not want to do my shopping using Food Stamps."
- "It is a long distance to a grocery store that is certified to accept the Food Stamps."
- "If some one does do my shopping using the stamps, I might be accused of selling them."

The list of complaints goes on and on.

- "I can't answer all the questions—they are confusing."
- "I don't want my children labeled as cheats."

Another overwhelming argument for autonomous food programs--especially those that are cashed out—is the competition that would evolve among food suppliers. At present, many grocers charge what they please. They simply view the Food Stamp as federal money. With recipients using cash, they may purchase food where it is most economical—not just where Food Stamps are accepted. This would also enable the needy to stretch their food dollar, thus becoming less likely to run out of food at the end of the month.

No matter how much caring people in the private sector try, we are often at a loss to help the needy access the public sector. It is my belief that the two sectors should complement each other, and with autonomous food assistance programs, they will succeed in their endeavors.

We have a great and bountiful country—one filled with citizens whose creativity and ingenuity can be used on a local level to make life's needs available to all of our people.

STATEMENT OF KENNETH W. CLARKSON, MEMBER, PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE AND DIRECTOR, LAW AND ECONOMICS CENTER, UNIVERSITY OF MIAMI

Good morning Mr. Chairman and other distinguished Senators. My name is Kenneth W. Clarkson. I am Director of the Law and Economics Center at the University of Miami and a member of the President's Task Force on Food Assistance. I am pleased to have been asked to share my views on S.1279, the Food Stamp Optional Grant. In doing so, I will draw heavily from personal observations as a member of the Task Force as well as from our jointly reported findings and conclusions.

As we are all aware, the concept of a block grant is not new--in fact its roots extend as far back as the beginnings of our nation. What is new--as this Committee has recognized--is that the block grant concept offers potentially high returns to recipients and sponsors of food assistance programs for the needy. My statement today is directed toward an increased understanding of the advantages of a "block grant concept" in meeting the food needs of the poor. Because the Task Force's recommendation in this area differs considerably from existing block grants, we refer to the concept as an "Autonomous Food Assistance Program."

Before examining the essential features of our proposal, I will review some of the major findings that contributed to our recommendation for an optional autonomous food assistance program. These findings include:

- **Poorly Targeted Federal Food Assistance Benefits.**

  Many federal food assistance programs fail to direct benefits to those most in need. For example, despite a gross income eligibility cap set at 130% of the poverty level, calculations from the 1982 Consumer Population Survey indicate that 8 percent of food stamp recipients with incomes exceeding this limit received food stamps in that year. At the same time, large numbers of eligible individuals do not participate in the program. In addition, recent data (through March 1982) reveal that approximately one out of every ten food stamp dollars either goes to ineligible individuals or represents an overpayment. Unfortunately, many other federal food assistance programs share these characteristics.

- **Excessive Federal Rules and Regulations.**

  The Task Force found that many food assistance programs contain excessive rules and regulations. The Food Stamp Program, for example, is inordinately complex and has undergone an extraordinary number of changes during its relatively brief history. The result of this complexity and everchanging nature is an excessive error rate that undermines the effectiveness of the program--and the public's willingness to support it. This complexity and uncertainty probably also reduces participation by making some individuals less willing to confront administrative "hassles." The Task Force also heard complaints from local food assistance organizations about the inordinate paperwork required by many programs--for example, the two-page form that must be completed each time damaged food is thrown away. Such high-volume paperwork creates enormous backlogs and undermines rather than promotes efficient administration.

- **Excessive Administrative Costs.**

  In attempting to strike a balance among the often contrasting managerial requirements of a food assistance program, complex administrative procedures associated with many food assistance programs, often take a significant portion of the food dollar. These complexities arise from a system that must simultaneously establish flexibility to meet individual needs, maintain uniformity in application, and ensure accountability of taxpayers' funds. According to recent estimates, combined federal, state and local costs of the food stamp program, are in excess of 10 percent of total program costs.

- **Differences in Food Problems Among States.**

  The Task Force found that circumstances underlying food needs often vary from state to state and even from county to county. One reason for these differences is that the proportion of children and elderly in the population varies significantly across and within states. Moreover, the ability and desire of communities to participate in the school breakfast program, the child-care food program, the summer food program, the elderly food program and other food assistance programs differ markedly across and within states. Equally important, the costs of food and other essentials, such as energy, fluctuate across and within states. In Light of these diversifying circumstances, variations in benefit and eligibility levels should also be allowed.

- **Differences in Solutions.**

  The Task Force also found significant differences in the ability and desires of communities to solve various food assistance needs. For example, we applaud the efforts of Peoria's Citizens' Committee for Economic Opportunity to meet some of the area's demands by growing food for the needy; however, this approach is not feasible for many urban areas, New York City, for example. We also found the Community Nutrition Institute's recommendation that "we should invest in programs that encourage state and communities to plan nutrition programs that can be managed wisely" to be representative of the willingness of many local organizations to identify the best solution for their own community. Under a system of greater local control, states would be able to adopt more flexible programs targeted at residents who would not necessarily qualify for existing programs. States or local governments are often better able to identify people and their particular needs than the federal government; yet, under the present system, the federal government must dictate blanket eligibility criteria for all the states.

- **Enhancement of Private Sector Programs.**

  Increased local control would also enhance the possibility of additional funding for private nonprofit programs, as well as increased volunteer help for private food assistance programs.

In response to these findings, the Task Force recommended that states be allowed to develop their own food assistance programs, with appropriate federal funding. We recommended that this funding be set at current overall aid levels, that it automatically rise with increases in food prices, and that it be adjusted for changes in the number of needy individuals. By granting the states more autonomy in allocating funds among various food assistance programs, the needy would be more accurately identified and served. Additionally, the availability of funds would most likely increase with the concomitant decrease in administrative costs. Greater local control would also enhance the possibility of increased funding from the private sector. However, states could still choose to let the federal government continue to administer any or all of the food programs. Specifically, the Task Force's proposed block grant concept is:

Recommendation 1: (i) The Task Force recommends that Congress make participation in any or all existing food assistance programs optional

for the states, under the proviso that a State which chooses to operate an autonomous program cannot divert funds for food assistance programs to other uses. States should have the option of, for example, continuing to participate in the Federal Food Stamp Program while establishing autonomous control over all or some of the remaining programs.

(ii) Allocations to states which choose to establish autonomous programs shall be made according to a formula that would provide a predictable level of funding that meets the varying needs for food assistance in these states. This formula shall be based on existing baseline levels of funding and on changes in food costs and the state population in need.

(iii) Provisions shall be made that will safeguard local jurisdictions in states operating autonomous food programs from having to bear an increased share of administrative costs.

This recommendation is based on a number of key aspects that we found to be important to various interests involved in administering food programs. These key aspects are:

- The grant should be optional, not mandatory, to the states.
- The grant should be restricted to food assistance for the needy, but it should allow states to allocate funds among its food assistance needs.
- The grant should allow states to choose any combination of federal food assistance programs in developing its autonomous food assistance proposal. States would also be free to distribute benefits through payments inkind (i.e., food stamps or vouchers) or through cash.
- The grant should provide full federal funding at current levels.
- The grant should be indexed for future changes in food prices and changes in the needy population.
- The grant should be non-discriminatory, but states should be free to establish eligibility requirements and administrative procedures within general bounds.
- The grant should prevent states from substituting a state bureaucracy for the existing

one at the federal level. Hence, a cap on administrative expenses is necessary.

These are the key aspects of our block grant concept. The Task Force refrained, and I believe appropriately so, from specifying the precise form the autonomous food assistance grant should take. Neither Washington, D.C. nor the Task Force has a monopoly on concern, compassion, or potential solutions for the needy. I believe that our concept will encourage communities and individuals to develop innovative and effective methods for helping those in need of food assistance.

Thank you for the opportunity to express my views on this important issue.

STATEMENT OF STEPHEN K. LARSEN, CHIEF, FOOD STAMP PROGRAM MANAGEMENT BRANCH, CALIFORNIA DEPARTMENT OF SOCIAL SERVICES

Mr. Chairman and members of the committee, I am Stephen K. Larsen, Chief of the Food Stamp Program Management Branch in California's Department of Social Services, and I am representing Linda S. McMahon, the Department's Director. It is with pleasure that I speak to you today on behalf of California's Health and Welfare Agency. I would like to offer testimony today in support of the basic provisions of S 1279 which, if enacted, will be cited as the "Food Stamp Optional Block Grant Act of 1983".

S 1279 achieves a good balance as a block grant proposal. The bill provides assurances to Congress that the Federal Government will have control of states' expenditures. At the same time, it provides states with the latitude to design a low-income nutritional assistance program which is efficient, effective and complements other assistance programs within the states. The latter is assured through the provisions which give states the exclusive authority to establish eligibility standards as well as the amount and form of assistance to be granted individuals within the states. I believe these provisions are key to states' participation in this optional program.

California does, however, have some concerns about S 1279 which I would like to share with you at this time. These concerns are technical in nature, but your attention to them will increase states' interest in participating in the block grant program.

BASE YEAR FOR STATE ALLOCATIONS

The first area in which we would recommend a change is in the use of the period April 1, 1982 to March 31, 1983, as the base year for determining individual state's percentage share of the national Food Stamp Program Appropriation. We are concerned that the use of this period will not provide for equitable allocations to states participating in the block grant program. Our concern derives from the following considerations:

- Administrative costs for Food Stamp participants who also receive AFDC benefits

  In the proposed base year, the administrative costs associated with Food Stamp participants who also receive AFDC were picked up through DHHS funding of their public assistance workload. This cost is not, therefore, in the base period. DHHS has directed California and most other states to begin claiming incremental public assistance Food Stamp administrative costs to Food and Nutrition Services. This results in states which participate in the block grant program paying administrative costs for public assistance households which were not in the base year. Even if the appropriation from Congress is increased to provide for these additional costs, there is not adequate data available to make accurate adjustments to states' allocations as each state's public assistance workload and costs vary and are not proportionate to nonassistance workload and costs.

- Subsequent expenditure patterns

In the period of time following the proposed base period, California's expenditures in the Food Stamp Program have been $7 million a month more than during the base year. Consequently, the proposed base year is most likely not representative of California's current expenditure pattern as compared to the nationwide pattern.

ESTABLISHMENT OF ALLOCATION FORMULA

The second area I would like to address is the allocation formula and the provision in S 1279 which would require the evaluation of possible alternative allocation formulas and a report on them to Congress by one year following enactment of this legislation. The allocation formula should be settled on prior to the implementation of this legislation. Without this change, states are placed in the position of being unable to effectively plan their programs, as a change in allocation formula could result in great variation of a state's allocation from one year to the next. Many states, including California, are unable to rapidly respond to change in allocation as they are required by their state laws to make program changes only through a lengthy regulatory process which includes public hearings. By establishing the allocation formula prior to putting the legislation into effect, Congress will be ensuring more stability to the low-income nutritional assistance programs provided for with the block grants.

PERCENTAGE ALLOCATION FORMULA

Third, California would urge that an allocation formula be established that is not based on the percentage of current expenditures. A fixed percentage formula does not provide the states sufficient ability to plan their programs. In addition, an allocation formula based on the percentage share of the federal appropriation will hinder Congress' ability to determine the amount to be appropriated for the Food Stamp Program and the Food Stamp Optional Block Grant Program. S 1279 should contain the federal appropriation methodology so that block grant states will be able to estimate future year allocations. Specifically, we recommend that block grant allocations be arrived at by calculating the individual state's percentage of national expenditures for a period as current as possible, and then setting the allocation at that funding level. The allocation level should be indexed for inflation and population growth, and be further adjustable in the event of a severe economic downturn.

MULTI-YEAR ALLOCATION FIGURES

To facilitate states' planning, our fourth recommendation is that states receive multi-year (at least three years) basic allocation figures. This would allow effective and efficient planning without major yearly revisions to states' plans and state's programs.

USE OF USDA FOOD COUPONS

The last area that I would like to talk about is the use of USDA food coupons by block grant states. S 1279 does not speak to the use of these coupons at all. California recommends the inclusion in this legislation of a provision to allow states the option to use USDA coupons. The provision should include the financial arrangements involved in the use of the coupons by states. Unless states are able to use USDA food coupons with acceptable arrangements for the redemption of the coupons, states will likely be unable to financially administer anything but a cash assistance program. This results because the allocation formula does not provide for the funding of a coupon issuance and redemption system.

The State of California is grateful for this opportunity to bring its support of S 1279 and its recommendations for technical change before this committee.

STATEMENT OF ELLEN NISSENBAUM, STAFF ASSOCIATE, INTERFAITH ACTION FOR ECONOMIC JUSTICE, REPRESENTING COALITION ON BLOCK GRANTS AND HUMAN NEEDS

Mr. Chairman, members of the committee, my name is Ellen Nissenbaum. I am staff associate at Interfaith Action for Economic Justice and am testifying today on behalf of the Coalition on Block Grants and Human Needs. I appreciate this opportunity to discuss with you the Coalition's views on the proposed optional block grant for federal food assistance programs through either the "autonomous state programs" recommended by the President's Task Force on Food Assistance or the Chairman's food stamp proposal contained in S. 1279.

Although my testimony will focus on the block grant, I would like to make a few comments on the overall tenor of the Task Force report. Outside of a few positive suggestions, the report glossed over the growing seriousness of hunger in this country. Members of the Coalition such as the Center on Budget and Policy Priorities, Children's Defense Fund and the Food Research and Action Center, as well as the Centers for Disease Control, state public health agencies and city hospitals, have documented the rising incidence of health problems associated with malnutrition. It is unnecessary to reiterate their findings which have been cited frequently in the press in recent days.

It cannot be mere coincidence that more people, including children from low-income families, homeless and elderly, have been going without the proper nutrients at the same time that eligiblity and benefit levels have been lowered in federal food and income support programs. The Task Force failed to recognize this connection.

The block grant recommended by the Task Force would only expand the problem by creating new gaps in coverage from state to state. The Coalition, therefore, joins Senators Andrews and Kennedy in seeking a resolution, at the outset of this Congressional session, rejecting the block grant concept and affirming the federal commitment to food assistance programs. On the issue of a food block grant, the Coalition stands united in its opposition with the nation's governors, mayors and county officials. Opposition is broad. Indeed, we doubt that as many of the Task Force members as did on January 9 would support the concept today. One of them admitted on a national news broadcast that she voted for an optional block grant because she "didn't have enough information to vote against it.

The Coalition's view of all block grants stands on four principles -- adequacy of funding, targeting, accountability and program standards, especially those upholding civil rights. Over 100 organizations representing religious, civil rights, senior citizens' and other public interest groups endorse these principles when other block grants and "new federalism" were being debated. We believe a food assistance block grant would fail on all four counts. Before examining each of them, however, it must be noted that what we are discussing today is fundamentally different than any of the block grants enacted previously by Congress.

Food stamps are an entitlement -- at least to the extent that, within appropriations levels, the government promises a minimum level of food assistance to all who fall beneath a certain income -- regardless of their age, sex or family composition. This "contract," if you will, is not dependent on the choice of any intermediary to operate the program or on a participant's state residency. It is the only public assistance program we have in which anyone who meets the income and assets criteria is entitled to receive benefits. This is appropriate because we are talking about food -- the most fundamental element of human growth and survival.

Ensuring an adequate diet is a national, not a state or local, responsibility. People's access to food is a function of their income level and food production. These, in turn, are dependent on the performance of the national economy and national farm and trade policies. Furthermore, a healthy populace is a benefit to all of us. Human capital is our most precious, if highly mobile, natural resource. We cannot afford to leave its nourishment in the hands of individual states.

Some have said that, even if a block grant is not such a good idea, we should not worry because it would only be "optional" for the states. However, it would not be optional for recipients. If only a few states elected to participate, the residents would have no option to continue under the federal program. For those truly affected, then, the choice could be between reduced benefits or moving to another state.

The extent to which states could freely exercise an option is also debatable given the extreme amount of administrative pressure the federal government has put them under in recent years. The Food Stamp Act was entirely rewritten in 1977 and has been amended five times in the last six years. Each time, the Department of Agriculture has issued new regulations which states must implement. This entails training workers, reprogramming computers, writing new manual provisions and drafting new forms. On January 1, states implemented a new system of determining eligibility and benefits for some households. The average caseworker has hundreds of cases to process.

States are working to reduce their error rates to five percent by 1985. If error rates remain unchanged from the last data published by the Food and Nutrition Service (October 1983), they will be subject to sanctions of $220 million in FY 1985. The penalty would more than double to $460 million under the harsher sanctions proposed by the Task Force, according to the Center on Budget and Policy Priorities. Under such financial and administrative pressures, what state would not choose to get out of the federal program?

FUNDING ADEQUACY

Considering the principle of funding adequacy, the block grant must be examined from both national and state perspectives. Nationally, we know that each of the block grants enacted in recent years have carried with them funding cuts -- an average of 25 percent among the 1981 block grants. The various food block grant proposals of the last few years have contained cuts ranging up to 42 percent in the Administration's General Nutrition Assistance Grant put forward in its 1983 budget request. All these proposals have been rejected by Congress.

The Food Task Force sought to ensure the maintenance of at least the current spending level. While it said allocations to the states could be made "according to a formula based on changes in food costs and the state population in need," it did not say how the national appropriation should be arrived at. Presumably, one would simply add up the costs of all the state programs and adjust for food inflation. The total funds seen as needed nationally would thus decline to the extent that states remove people from eligibility or otherwise curtail programs.

Meanwhile, under any plan which fixes a state allotment at the beginning of the fiscal year, as is done in S. 1279, states will have a built-in incentive to define fewer people as eligible and lower benefits. In that way, they would be able to build up reserve funds to meet unexpected emergencies such as sudden plant closings. Indeed, under the chairman's proposed food stamp block grant, states could carry unspent funds over to the next fiscal year or transfer them to "other social services."

Experience with the block grant for low-income energy assistance indicates the likelihood of this happening. Despite heating cost increases on the order of 25 percent in 1982, 34 states that year transferred funds to other block grants, 25 of them to social services, according to a 50-state survey by the Center for Law and Social Policy. Meanwhile, end-of-year surpluses contributed to Congressional reluctance to increase appropriations even though states were serving less than 35 percent of their eligible populations.

Even if the overall spending level would remain stable under a block grant, the amount reaching beneficiaries would undoubtedly shrink as each participating state set up its own administrative system. There are certain econmies of scale associated with a national system, particularly one which relies on the printing of food coupons and distribution of commodities. In fact, many states could be expected to do away with coupons, the mechanism which assures that the program addresses nutritional needs even as higher prices for energy, medical care and other necessities place new demands on low-income budgets.

From the state perspective, the adequacy of funding becomes even more problematic. Most block grants, including S. 1279, provide a one-time state allocation at the beginning of the fiscal year. S. 1279 would require that the allocation be based each fiscal year on the share of total funding the state received from April 1, 1982, to March 31, 1983, thus providing no adjustment over time for changes in the state's level of need relative to other states. The Task Force discussed the possibility of adjustments for unemployment, or some other measure, during the fiscal year. Because of several months' lag in state-level statistics, however, a block grant would never achieve the same responsiveness as the existing food stamp and child nutrition programs which provide assistance as soon as another person becomes "income-eligible." States and localities facing sudden increases in unemployment and simultaneous losses of tax revenue, thus, receive an automatic infusion of aid under current programs.

Removing the direct tie between food assistance and personal income will eliminate the ability of the federal government to compensate for low AFDC benefits in some states. Currently, recipients in states with low AFDC benefits receive more food stamps than do recipients in high benefit states. If these, mostly southern states, sharply reduce food benefits (or deny them to two-parent families as about half the states now do in their welfare programs), poor residents will be substantially worse off and could cause migration to the hard-pressed cities of the north.

Migrant workers would face particular hardships under a block grant with separate eligibility and documentation requirements in each state. Currently, they are protected by specific safeguards to receive expedited benefits when they cease or lose work or cross into another state.

TARGETING

The Coalition agrees with the Task Force that targeting is important, especially when resources are scarce. The neediest should receive assitance first. Current targeting based on income level is the fairest and most effective method when we are talking about the universal need for food. Under a block grant, a state can choose any number of methods for determining who receives help. In the Social Services Block Grant, some states have opted for "group eligibility," partly as a way to eliminate the administrative costs of documenting income eligibility. Thus, for example, anyone in the "group" of persons over 65 years of age may qualify for services. Simultaneously, eligibility has been tightened for services, such as day care, that are traditionally reserved for low-income people. The Center for Law and Social Policy found that "child day care took the brunt of the budget cuts" in fiscal 1982 in 10 of the 17 states which did not make pro-rata cuts for all services. This was the first year after Congress removed the day care set-aside in the Social Services Block Grant.

In the Chapter 2 Education Block Grant, states were given discretion to design formulas to distribute funds to school districts. They were told only to take some account of such high need factors as the number of AFDC, handicapped or non-English speaking children. In a survey one year ago, the Coalition found that only two out of eleven sample states distributed more than 50 percent of their block grants on such factors of need. On the average, 73 percent was based strictly on enrollment. Because of the large, well-documented shift of education funds to non-urban school districts, it is likely that population sparcity (another possible indicator of high need) received more weight in the formulas than the number of disadvantaged students.

Given the trends illustrated by the states' implementation of these block grants, we cannot be confident that under a food block grant many would not revert to their restrictive practices before the establishment of national eligibility standards. It was Richard Nixon who established national eligibility and benefit standards for the Food Stamp Program when medical researchers found in the late 1960's that major problems of poverty-related hunger and malnutrition remained. In many states, such as South Carolina, benefits were based on an income level barely above 50 percent of poverty. A similar situation existed in school lunch and breakfast programs. Before national standards were instituted, a coalition of women's groups found that, of the 6 million children from families with incomes of $2,000 or less, two-thirds were not receiving free or reduced price meals.

ANTI-DISCRIMINATION PROTECTIONS

The Coalition has observed that targeting, program mix and the selection of program operators all affect the degree to which groups protected by non-discrimination laws receive their share of government benefits. (Title VI of the 1964 Civil Rights Act, like the age and handicapped anti-discrimination laws which followed, requires that no person from a protected class may be denied the benefits of a federally financed program.) It is not necessary for a caseworker to write "ineligible" across a minority person's application for discrimination to take place. Minority participation can be seriously eroded by shifting emphasis from one food program to another or from one type of provider agency to another. Formulas for sub-state distribution can be designed in ways that reduce allocations to areas with large minority populations.

The same is true of the elderly and handicapped. An extreme example would be a case where the state decides to eliminate elderly feeding centers and instead concentrate its funds on school meal programs. Handicapped persons would be at a disadvantage if food stamps were drastically curtailed in order to fund more soup kitchens and food pantries. Women heads of households, and of course their preschool children, would suffer disproportionately if a state decides to eliminate child care food programs. Even today in state-operated public assistance programs, women and children often receive lower payments than the disabled and elderly. Two-parent and childless families frequently receive no assistance.

Some may decry this array of food programs as inefficient duplication. It is the diversity, however, that allows assistance to reach more of those who need it. A low-income family might refuse to apply for food stamps because of the attendant stigma, yet their children may be receiving reduced-price lunches.

ACCOUNTABILITY

The great increase in flexibility that accompanies block grants only increases the need for accountability mechanisms. Nevertheless, most block grants, including S. 1279, greatly reduce the program data that must be reported. That bill requires that states establish a needs assessment, monitoring procedures and descriptions of the assistance to be given and eligible recipients. However, "the Secretary may not prescribe the manner in which the block grant states comply." In the absence of uniform national data, it will become impossible to determine who is receiving what types of assistance and whether discrimination is occurring. In the Coalition's examination of the Social Service Block Grant last year, only two of eight sample states aggregated data by race, ethnicity, sex or other characteristics of clients served. Indeed, the absence of program data in any food block grant will make more difficult the identification of hunger, or our progress against it, in this country.

The need for adequate record-keeping and reporting would be heightened by the greater potential for both underpayments and overpayments, fraud and abuse as states develop their own management systems, procedures, oversight mechanisms and program components. The state counterparts of federal oversight and sanctions do not exist presently at that level. Accountability to the government which pays the bills -- the federal government -- and the taxpayers would be weak or non-existent.

Within the state, public hearings can afford some measure of accountability if properly executed and if a broad spectrum of the population has a voice in decision-making. In the Coalition's experience, this is rarely the case. S. 1279 specifies the barest requirements in this regard. It provides only that the state plan "be made available for public inspection" and that the state legislature conduct biennial hearings the first year _after_ the block grant has been implemented. The latter leaves the public, and possibly the legislature, out of the most crucial decision of all -- whether the state will participate in the block grant.

To summarize, the Coalition believes that the idea of a block grant for food and nutrition programs is one to put behind us as we contemplate how to truly eliminate hunger from this land. Its flaws are in the inevitable inadequacy and inequities of funding from state to state, the absence of nationl eligibility and benefit standards, the potential for discrimination, the loss of income targeting that is already built into existing programs and the loss of accountability over federal funds. Most of all, the problem would be the rupture of a government commitment to ensure a minimum level of food to every citizen.

STATEMENT OF GENE DURMAN, SENIOR RESEARCH ASSOCIATE
THE URBAN INSTITUTE

Introduction

Good Morning. My name is Gene Durman. I am a Senior Research Associate at The Urban Institute in Washington. I'm pleased to have been asked to speak before this committee as it considers proposed legislation to establish a Nutrition Block Grant. My testimony before you today will focus on the preliminary findings of recent work done at The Urban Institute on the implementation by the states of the HHS administered block grants created by the 1981 Omnibus Budget Reconciliation Act. The study, supplemented by HHS and Ford Foundation funds, has gathered expenditure data and conducted telephone interviews with state officials in eighteen states. We have looked primarily at six block grants, Social Services, Community Services, Low-Income Energy, Maternal and Child Health Services, Preventive Health and Health Services and Alcohol, Drug Abuse and Mental Health Services. Our findings are still preliminary, as reflected in the fact that (particularly in the health area) we do not have complete data in all eighteen of our study states. My comments to you reflect my own views and do not necessarily represent the position of the study sponsors nor of The Urban Institute.

The term "block grant" has come to mean the combining of several categorical federal programs into a single substantive area with the financial resources passed to the state governments with substantially reduced administrative and reporting requirements. An additional characteristic of the block grants created under the Omnibus Budget Reconciliation Act of 1981 was that the total of the federal funds combined from the predecessor categorical grants was reduced by some percent before being passed through the states. Block grants represent an important middle ground between the cateogorical approach to federal/state relations and the general revenue sharing approach which attaches essentially no restrictions on the area of activity supported by federal funds. Because block grants are so new, a number of questions can be asked concerning state actions in implementing these block grants. I will address two significant questions in my testimony below.

(1) To what extent and in what manner has state government replaced the reduced federal dollars in the block grant areas?; and

(2) To what extent has hoped for administrative savings and efficiency been realized as the states have assumed the responsibility for block grant acitivities?

In conclusion I would like to dwell briefly on the implications of the states' implementation of these six block grants for the proposed Nutrition Block Grant. My discussion of these issues will be brief and I would welcome any questions you have following my prepared statement.

State Replacement of Reduced Federal Block Grant Dollars

One major test of a state's commitment to activities folded within a particular block grant is the degree to which it was willing and able to secure funds to replace lost federal revenues. The eighteen states in our study have succeeded in substantially replacing lost federal funds in four of the six block grants examined in detail in our study including: Social Services (SSBG), Maternal and Child Health Services (MCH), Preventive Health and Health Services (PHHS), and Alcohol, Drug Abuse and Mental Health Services (ADM). The issue of state replacement does not arise within the Energy Block Grant because federal expenditures in that area were not reduced. Thus, only in the Community Services Block Grant, which had been almost totally federally funded as a categorical program, was there essentially no state replacement.

One simple index of state replacement is whether total spending (the sum of federal block grant, other federal, state, and local spending) increases, decreases, or remains the same as federal block grant spending decreases. Using this as an index, eleven of eighteen states increased total spending in the Social Services Block Grant between 81 and 83; eight of thirteen states increased total spending in the MCH and PHHS Block Grants; and eleven of fourteen states increased total spending in the ADM Block Grant.

These data, which suggest significant state efforts to secure replacement funding for activities within the block grants, need to be interpreted with some caution. First, we have been unable (in many instances) to separate spending that states would have done anyway from that specifically targeted as replacement for the block grant. Second, the figures cited are not adjusted for the effects of inflation. If inflation were taken into account, the trends indicated by the above data would remain although the magnitude of the "real" replacement would be reduced. Thus, relatively few states would be replacing 100 percent of the lost federal dollars in the health blocks where inflation over the two year period FY81 to 83 averaged some 24 percent. On the other hand, the figures given do not take into account the increased federal expenditures resulting from the Jobs Bill legislation. If such funds were taken into account, the amount of state funding required for replacement would be reduced and thus the number of states that fully replaced lost block grant dollars would be increased.

Several factors are responsible for the fact that a large number of states in our sample were able to replace (at least in nominal terms) all of the federal reductions in federal block grant expenditures. First, the magnitude of the loss of federal dollars was reduced in two ways: 1) the existence of a substantial one time reserve of funds from the categorical programs that preceded the block grants; and 2) from increased federal appropriations as the block grants were implemented. In addition to these factors which reduced the amount of replacement required, States did find alternative sources of funding. In the Social Services Block Grant, for example, eleven of our eighteen states made significant use either of other federal sources of funds or of local funds to partially offset reduced federal block grant spending. Across all the blocks, however, the primary state strategy was a willingness to use its own general fund dollars to offset federal reductions.

Administrative Developments in State Implementation of Block Grants

A second major question raised by block grants is whether administrative efficiencies or program innovations result from these new arrangements. Our data seem to suggest that the states in our study have been almost universally vigorous and conscientious in their administration of the block grants. Examples drawn from various of the block grants illustrate this point.

- Within the Energy Block Grant, Florida was able to utilize the notion of Double Social Utility to minimize the administrative costs of its energy programs. To cope with a heavy "seasonality" in requests for program assistance the department hired AFDC recipients and eliminated the need for frequent hiring and laying off permanent staff. Ohio was able to improve the overall efficiency of its weatherization activities by introducing a performance component into its formula funding.

  The state was then able to reward "high performance" which could include serving additional elderly or handicapped clients, or minimizing the labor component in overall costs.

- Fifteen of eighteen states made major efforts to exert administrative control over the CAP agencies and the CSBG. This included the imposition of financial sanctions for failure to submit financial reports, the imposition of detailed performance standards including penalities for non-performance, capping the amount of administrative expense that could be claimed by the CAP agencies, etc.

- Changes are also evident in the health blocks. In the ADM block, Colorado shifted the federally supported CMHC's to the state system of reimbursement on a per unit of service basis. This brought federally supported centers in line with reimbursement received by other state supported facilities and reduced the overall cost per unit of service. As in the ADM block, New Jersey and Oregon moved to require the federally supported CMHC's to serve chronically ill patients as their top service priority. In New Jersey, for example, this included the development of a funding formula which explicitly took into account the number of patients served by a CMHC that had been discharged from a state or county hospital. While this was not a new program objective in the states, they were able to achieve it more fully with the added control provided under the block grant.

Administrative changes and innovations do not necessarily imply administrative savings in dollar terms. Most state officials, in fact, indicated that there had not been significant cost savings associated with the transition to the block grants. In general it has been very difficult to establish, quantitatively, the administrative costs of the programs.

Some data suggest a slight reduction in administrative costs. For example, in the Social Services, eleven of eighteen states were able to distinguish the administrative component of their service activity. Of these eleven states, six decreased the administrative share of service expenditures, three increased it, and two held it essentially constant. Overall, in these eleven states the administrative share declined from 9.9 percent to 9.2 percent of total social services spending.

To summarize, states do appear to be taking seriously their increased administrative responsibilities. They have been vigorous in administering programs, have (in some instances) been able to consolidate or develop new programmatic innovations as a result of their greater flexibility. Dollar savings, however, have not been great. At most there has been a modest decline in administrative expenditures.

What Implications (If Any) Does the Experience of the Eighteen States in Implementing the HHS Administered Block Grants Have For a Proposed Nutrition Block Grant

While it is always difficult to generalize from one area of public activity to another, it does appear that the states experience with the HHS block grants has several general implications for the proposed Nutrition Block Grant. First, based on our observations, we would not expect states to divert nutrition block resources away from the neediest among the populations served. In the Community Services Block Grant, for example, fourteen of eighteen states redistributed funds in order to more equitably serve the low-income population of the state. In the Social Services Block Grant, every state that made changes in eligibility made those changes either to lower the levels of income at which a person could become eligible for a service or restricted such services to public assistance clients.

Second, we would expect some modest administrative efficiencies from the transition to a block grant. Here again, the Social Services block is a useful analogue since it has been administered by the states under federal supervision much like the current Food Stamp Program. Thirteen states reported fairly minimal administrative savings resulting from the elimination of certain federal reporting requirements. Five states reported more significant administrative changes. Changes in these states generally focused on integrating the Title XX eligibility determination process with eligibility determination for other state services. We might expect similar results from a Nutrition Block Grant. Most states would experience relatively minimal administrative changes, primarily those resulting from reduced or eliminated federal reporting requirements. A few states would probably use this opportunity to more fully integrate eligibility determination procedures for nutrition benefits with those of AFDC, Medicaid, and other state assistance programs.

A final implication of our block grant work requires a slightly more detailed discussion. We would not expect that states would be able to replace a substantial loss of federal dollars in the nutrition block, nor that they would be able to easily deal with large increases in demand for food stamps over time. This observation stems from several of the characteristics of the Food Stamp Program, some of which differ from those of the programs folded into the FY81 block grants. First, the Food Stamp Program is large in dollar terms (most of the block grant programs were quite small). Secondly, food stamps are a program of direct benefits to clients rather than a service activity. Third, the Food Stamp Program has had only very limited state funding in the past.

As members of this committee know well, the Food Stamp Program has grown rapidly and, in many states, food stamp payments equal or exceed those for AFDC benefits. Thus, the Food Stamp Program is more similar to either AFDC or Medicaid as a major program directed toward direct beneficiaries than it is to the smaller scale service programs combined in block grants. Given this characterization of the Food Stamp Program there were several reasons to be pessimistic about states' ability to replace reduced federal funds. First, it was apparent (in the states that we examined) that reductions in the AFDC program were not replaced by the states even if attempts were made to replace in other areas. Michigan, for example, through a combination of both addition federal funding and encouragement of local funding was able to largely maintain its Social Services Program. Reductions in the AFDC program, on the other hand, were passed more or less directly through to clients. At least one state official posed the issue in the following way, "We could totally eliminate our Social Services program and barely make a dent in our Medicaid shortfall.... We might as well maintain the services and look to the larger dollar items for significant savings."

To the extent the Food Stamp Program is analogous to AFDC as a large scale benefits program, previous Urban Institute work suggests it may have difficulty securing state funds, particularly in competiton with the rapidly increasing Medicaid program. In a study of thirteen states, we found that, on average, Medicaid expanded more rapidly than general state spending by some six percentage points. In other words, if state spending increased 10 percent a year, Medicaid increased 16 percent a year. On the other hand, AFDC spending lagged behind overall spending by some eight percentage points. AFDC spending actually declined in seven of the thirteen states. This suggests that, to the extent that Medicaid continues to be a rapidly expanding program driven by the inflationary factors in health care, states will be hard pressed to both meet commitments to this program and sustain its contribution to a nutrition block.

As a program of benefits, the nutrition block is most analogous to the energy block program which had been, as a categorical program, directed primarily to low-income clients as general payments to offset increased costs of energy. Thus, developments within the energy block are instructive for a nutrition block. Eleven of sixteen states exercised their option to transfer funds out of the energy block and into other programs. The Social Services block was the most common recipient of such funds--this occuring in eight states. Even within the block, states changed the activities on which the funds were spent. Payments for general heating and cooling needs declined across the eighteen states from roughly 90 percent in FY81 to 76 percent in FY83. This decrease in general payments was accompanied by an increase in expenditures for weatherization (essentially a service activity) and in emergency assistance (a payment program targeted to crisis situations). To the extent that provisions for alternative uses of funds exist within the nutrition block, state implementation of the energy block suggest that benefit programs will be less favored than service oriented activities.

A final factor is that the Food Stamp Program has been largely federally funded in the past. The experiences of the eighteen study states with the six HHS administered blocks suggests there is a higher state priority placed on programs that had been funded jointly by the state and federal government. States made substantial efforts to replace lost dollars in the Social Services Block Grant, (which had required a 25 percent state/local contribution), but made essentially no effort to make such replacement in the Community Services Block Grant (which had almost no state funding). In the MCH block those programs that had been federal/state in the past, MCH Title V and Crippled Childrens' Services, were generally favored by states while programs that had been strictly federal/local such as SIDS or Adolescent Pregnancy were much less favored.

To summarize then, our examination of the implementation of block grants in the eighteen states and our earlier analysis of state spending suggests: (1) that the creation of a Nutrition Block Grant would not result in a shifting away from the neediest as a target group; (2) that such a block grant would be responsibly and vigorously administered and would achieve some modest administrative gains; and (3) it is somewhat unlikely that states would be willing and/or able to augment their Nutrition Block Grant over time (particulary if faced with sustained inflationary pressures in the Medicaid program.

STATEMENT OF EDGAR E. VASH, ROBERT HARMON AND ASSOCIATES, INC.

Mr. Chairman and Distinguished Members of the Committee:

I am pleased to have this opportunity to appear before the Senate Committee on Agriculture, Nutrition and Forestry. I appear today at the invitation of the Committee Chairman and as a finance analyst for Robert J. Harmon & Associates, Inc. — a national economic consulting firm. My testimony is limited to the philosophical, fiscal, and administrative features of S.1279, also known as the Food Stamp Optional Block Grant Act.

By way of background, I'd like to note that Robert J. Harmon & Associates, Inc. (RHA) is a Washington, D.C.-based corporation that specializes in transportation-based joint development. We provide on-going professional consultant services to 28 metropolitan areas. Many of the real estate and economic counseling which we provide involves major development projects in the districts of many members of this Committee. Two examples are the high-speed rail and downtown people mover projects in the State of Florida. In the course of our work with public and private clients, I am frequently called upon to evaluate state or local programs which have a direct impact on economic development projects. My most recent experience in this regard has been an eight-month review of state economic development statutes and regulations for the State of Connecticut.

My expertise vis-a-vis the Food Stamp Optional Block Grant Act is concurrently drawn from several sources. In 1982, I conducted a 32-state survey of nine block grants as part of a general "Backgrounder" study for The Heritage Foundation. The results and conclusions were published by The Heritage Foundation and distributed to newly-elected Congressmen in December 1982. I initiated a similar (though somewhat smaller sampling) survey for a Joint Economic Committee hearing in June 1983. It was during that hearing that I presented new, empirical data about the progress of block grants and recommended changes. In addition to the block grants enacted by Congress, I have provided certain states with confidential evaluations of existing categoricals and recommended changes.

Based on my knowledge of government and familiarity with business management, I have frequently endorsed policies similar to that embodied in S.1279. I provided written testimony on behalf of the block grant conversions of 1981 and argued in favor of further consolidations in 1982 and 1983.

In my professional opinion, however, S.1279 is a bill which does not merit passage by Congress. As now written, S.1279 would lock into place a national devolution quite unlike the block grant consolidations referenced above. The bill is inconsistent, incomplete, and, in certain instances, not sensitive to the original purpose of the Food Stamp Program. The financing mechanism requires clarification. The distribution formula does not reflect immediate and actual needs of the states. The cash management ramifications are contrary to established U.S. Treasury Department policies designed to reduce national debt. And the overall philosophical thrust of the bill would undermine bi-partisan efforts to protect the Safety Net Programs that now cover the truly needy.

My technical concerns with specific provisions of the bill are not insurmountable. The distinguished Chairman of the Committee has drafted a bill which can still be revised to reflect the philosophical and practical needs of the states. As now written, however, the Food Stamp Optional Block Grant is not a viable mechanism for resolving structural problems with the Food Stamp Program.

THE IDEAL BLOCK GRANT

Before offering my technical recommendations for S.1279, it behooves us to reach an understanding of what constitutes the "ideal block grant." Basically, Block Grants are tools for forging efficiencies and cost-savings where such features do not exist. A block grant is an alternative to categorical grants. The former delegates maximum discretion for a variety of single-purpose programs. Categoricals, in contrast, canonize considerable number of guidelines and restrictions that will govern implementation of narrowly-defined programs.

The inherent problems of categorical grants have been well documented by the many state groups, congressional committees and the Advisory Commission on Intergovernmental Relations (ACIR). Historically, the problem concerns flexibility: Because the categorical grant rigidly defines categories of coverage and methods of execution, the administering officials are unable to adapt the program to meet the unique needs of the intended recipients. These problems have been most dramatically documented in the categoricals that preceded the Preventive Health and the Social Service.

Generally, the comparative advantage of a block grant is its elasticity of coverage. A block grant by its very nature reduces overhead costs by reducing the number of agencies (and, thereby, personnel) needed to administer the program. Additional savings are realized by virtue of the devolved responsibility for eligibility; the state and/or local institutions are no longer required to cover every category of "needy" recipient defined by the Federal government. Thus, states such as New Jersey are now able to allocate more dollars and services to rape victims because the 1981 blocks (unlike the Rape Prevention categorical) removed restrictive earmarking that set-aside coverage for relatively smaller categories of individuals.

Another virtue of block grants is the opportunity that it provides for eliminating program duplication (i.e., overlap). This aspect of block grants can be quantified with the Maternal and Child Health Block Grant. Texas, Louisiana, Pennsylvania and other large states reduced MCH program costs from 5% to 18% by merging it with existing state-sponsored programs. The same recipients were covered, while the states accrued savings by reducing projected program costs. Other examples of such mergers have been documented in reports by The Urban Institute and the General Accounting Office.

FOOD STAMPS AS A BLOCK GRANT

My principal concern is that S.1279 sorts out the philosophical but not programmatic contradictions that currently hamper national categorical-based welfare policy. In the philosophical context of the "ideal" block grant, the state/local governments would receive policy discretion as well as administrative discretion for Food Stamps. This goal was underscored by Senator Helms in his May 12, 1983 Floor Statement, to wit: "Providing the States with the discretion on how to operate their programs will enable those states which wish to strike out in a new direction the option to do so... This optional block grant approach allows Federalism to work at its best — with maximum State flexibility."

The problem with this scenario is that Food Stamps is fundamentally different from the service and development programs that are now part of the block grant system. The fundamental difference is the fact that Food Stamps addresses a basic need of low-income individuals, viz.: their nutritional diet. Service programs (like Preventive Health) and development programs (like Community Development), involve a relatively painless and cost-effective transfer of control from Federal to State/local governments; both types can be targeted to reflect unique needs and resources of the recipients. The unique aspect of Food Stamps, however, is the number of needy recipients. Every legitimately needy Food Stamp recipient must meet the same daily nutritional intake in order to avoid hunger or malnutrition. That need (i.e., nutritional sufficiency) does not vary from state to state.

A Food Stamp block grant in and of itself would introduce some basic contradictions into the national welfare system. One of these contradictions would arise out of the repeal of the historical linkage between AFDC and Food Stamps. Since the states would not be obligated to adjust Food Stamp benefits to accommodate shifts in AFDC payments, it would foment a split in national welfare policy. Food Stamps is an integral part of the myriad of welfare programs because it serves as the equalizer of imbalanced benefits. The standard example of such equilibrium is the structural linkage between AFDC and Food Stamps. Reduction in the former are, in theory and practice, compensated by increases in the latter. A Food Stamp block would alter such linkage to the extent that states would assume unbridled discretion to rewrite eligibility and payment schedules.

The legislative linkage between AFDC and Food Stamps raises a broader, more critical issue. The larger issue is how to structure a basic reform of National welfare policy. A Food Stamp block grant is statistically a small component of the overall monies spent on welfare or income maintenance programs. By one estimate, there are at least 120 programs which, in one form or another, address income, nutritional and social needs of low-income individuals. I have seen other estimates of such programs ranging from 150 to 175, depending on how "income maintenance" is defined. The point is that S.1279 does not represent the institutional nor comprehensive reform needed to make welfare a more solvent and effective policy. It affects one component of a national policy of much greater magnitude.

LEGISLATING EFFICIENCY

One of the key objectives of the proposed Food Stamp Optional Block Grant Act is the reduction of administrative expenses incurred in the current program. Senator Helms stated in May 1983 that, "the present system... provides little to no incentive to operate an effective and efficient program." The Senator correctly noted that the administrative costs of the program are shared on a 50-50 basis between Federal and State governments, and that 100% of other costs are borne by the Federal government. This situation prompted Mr. Robert Valero of The Heritage Foundation to posit: "Turning complete responsibility of administering nutrition programs to the States would encourage states to scrutinize their programs more closely. Again, more efficient administration would be encouraged."

I have two concerns about these comments. First, program efficiency does not necessarily require a complete shifting of policy discretion from one level of government to another. There is no fundamental difference between government by Federal authority or government by state authority; both units can be subject to the same bureaucratic mindset and program prejudices. Program efficiency can be attained by incorporating administrative discretion and incentives into a Food Stamp program.

I'd like to suggest three alternatives which can have the effect of legislating efficiency or cost savings into the system. Each of these alternatives uses a form of profit motive by which states would be "rewarded" for cost efficiencies. As a program analyst who evaluates state/local development programs for many states, I can state with conviction that these reforms would have a more certain and quantifiable impact on state management. The suggested reforms:

- Cap the percentage of monies that can be used by the states for administrative expenses. The cap used in the 1981 block grants are about 10% per block. This statutory ceiling can be written as either (1) a percentage of aggregate program costs, or (2) a fixed dollar figure formula (e.g., multiply the number of eligible recipients by an arbitrary dollar figure). In either case, the existing and proposed penalty for error rates does not constitute sufficient incentive to leverage efficiencies. The real error rate can be easily hidden, depending on accounting techniques, carry-over methods, and definitions of minimum/maximum thresholds that constitute an "error."

- Authorize states to conduct a limited "amnesty" program for cheaters and — most importantly — allow states to keep the recaptured revenue. Because the recaptured revenue would, basically, be money already paid-out by the Federal government, it does make the Treasury forego important revenue on which it counted. Moreover, an amnesty program does not cost the U.S. or state treasuries any monies; the only cost would be absorbed via current personnel, who can be used to conduct an amnesty program. States can be allowed to use the recaptured revenue as cash reserves for Food Stamp payments in times of economic recession.

- Allow states to share 50-50 (with the Federal government) administrative savings realized through state assumption. This provision — which could, alternatively, be increased to a 100% retention by the states — would provide a stronger incentive than now provided in S.1279. As now written, the only incentive for efficiency is the penalty against a fixed error rate.

Collectively, these three recommendations would leverage fare more efficiencies than either the status quo or the proposed block grant. Given the current national interest in reducing the cost of government, these would be timely reforms. They have the distinct advantage of not influencing coverage of the truly needy. The safety net would be preserved, albeit at considerable savings to the public.

TECHNICAL CONCERNS

The statutory language of S.1279 requires clarification and, in some cases, major amending. The clarifications are necessary to make the proposed block consistent with other blocks already enacted by Congress. This consistency is important because it affects Treasury Department cash management practices, Office of Management & Budget (OMB) disbursement policies, and general Federal-State certification processes. The concerns outlined below are based on my own familiarity with existing statutes that govern categorical and block grants. The recommended changes would bolster prospects for success of the block should Congress decide to enact it.

Citation #1

> "(3) The Secretary shall make grants to block grant states in accordance with this section."
>
> and
>
> "(f) (1) The Secretary shall pay each block grant State the total allotment of funds for a fiscal year to which the block grant State is entitled under subsection (c) immediately after the Secretary has determined the amount of such allotment."

These provisions wrongly give the Secretary authority to cause grants to be allocated to the states at the start of the program. This policy should be avoided because it violates the Intergovernmental Cooperation Act (ICA) of 1968. The ICA is the standard disbursement vehicle for Federal-State programs, including the nine block grants enacted in the Omnibus Reconcilation Act of 1981. The ICA requires that Federal funds be disbursed in accordance with actual and immediate cash needs of the states. This practice insures that states will not draw down their monies faster than is actually needed. The Federal government can obligate monies to the states; but it should not disburse the monies until the states actually need it. Federal cash management practices — which raise monies (via investment) to offset the national debt — are helped by the ICA mandate.

The substantive political issue raised by the above citation concerns the definition of an "actual and immediate cash need." Because the money is obligated by the proposed Act, a state could theoretically define any activity as "necessary." The cash needs could be rationalized in several ways — with the ultimate goal of allowing the state to draw down the monies immediately. This process can contribute to the size of the error rate as well as administrative inefficiencies.

The Office of Management & Budget (OMB) has developed a policy whereby all block grant funds will be disbursed to correspond with the pace of actual spending. This policy can be structured to allow more rapid or expedited disbursement in cases wherein the state demonstrates an unusually rapid need consistent with the program purposes. Except for programs that have a clear, inherent seasonal pattern (e.g., the Low Income Energy Block Grant), OMB assumes that funds should be disbursed evenly. Again, I emphasize that this policy now applies to all the block grants already enacted by Congress. It is a prudent and indiscriminate policy that assists Treasury Department cash management policies while discouraging rapid state draw-downs before actual need.

I recommend that the Committee add to the referenced citation the following phrase: "and in accordance with Section 203 of the Intergovernmental Cooperation Act of 1968, 4 U.S.C. § 4213."

Citation #2

> "(c)(1)(A) The Secretary shall allot to each block grant State in each fiscal year, out of funds retained under subsection (b)(4) for such fiscal year, an amount which bears the same ratio to the total amount of funds retained under such subsection as the amount received by and benefits distributed in such block grant State for the period beginning April 1, 1982 and ending March 31, 1983..."

There are two fundamental problems with this citation. First, the distribution formula bears no relation to actual poverty nor incidence of low nutrition. Instead, program monies would be allocated on an automatic basis based on figures that were relevant only to the prior fiscal year. This provision would not respond to regional or numerical shifts in the location/level of low nutrition. More simply stated, the single Federal program that should be designed to reach a targeted population will no longer be targeted at all. In light of the current economic recovery, new job openings, and work incentives (incorporated into AFDC, Food Stamps and job training), this static allocation formula is archaic.

A second problem with this distribution formula is its inelasticity vis-a-vis changes in participant levels. The fact that the ratio is fixed (in accordance with previous fiscal year funding allocation) prevents any consideration of the fiscal disparities that exist between states. The fixed ratio also prevents any expansion of the program to accommodate increases in the number of low-income individuals. I should add that the fixed-formula ratio also prevents consideration of any contraction in the size of the people who need coverage. Thus, the allocation would relfect neither recovery nor recession, both of which directly affect the number of individuals who will be categorically needy.

The most obvious alternative is to use the previous year distribution ratio only as a base against which final funding would be assessed. The distribution ratio could be held to a fixed differential, such as 2% to 5% shift in the level/percentage of previous year's funding. This distributional "float" would not necessarily reduce the states' incentive to minimize program costs, since the states would (a) be held to the fixed maximum error rate and (b) retain the powerful cost-savings incentives that I recommended earlier. At the same time, the distribution ratio would allow the states the ability to draw greater/lesser monies (depending on recession or recovery) to accommodate decreases/increases in the number of low-nutrition individuals.

Citation #3

> "(B) Notwithstanding subparagraph (A), no block grant State may receive for any fiscal year an amount less than percentum of the amount appropriated..."

This provision creates problems similar to those outlined in Citation # 2, above. There are clear political advantages to this approach, given the fact that ten states received an initial 1982 allocation between .08 and .29 percent of the amount appropriated. But neither of the preceding provisions bear any relationship to poverty, low nutrition or other quantifiable needs within states. States which approximate the .25% floor would not share the same incentives of other states to implement cost-saving features. The recommendations submitted as part of Citation #2 should also apply to this provision.

Citation #4

> "(d)(1) To be eligible for a grant under this section in any fiscal year, a block grant State must submit an application to the Secretary for the fiscal year. Each application shall be submitted at such time and in such form as the Secretary shall require."

The minor problem that may be posed by this concerns the timing of Federal and state fiscal years. The state fiscal years do not coincide with Federal fiscal years; many states start their fiscal year in June of each calendar year (as opposed to October, the date of the Federal fiscal year). The real risk this poses for implementation was demonstrated in the early months of categorical/block grant conversions in 1981. The two official state organizations (National Governors Association and National Conference of State Legislatures) reported uniform confusion and delayed recipient coverage (i.e., service delivery) during those early days. One of the key causes of this confusion was the departmental delays in devising proper forms and filing deadlines for the conversion to the block grant system.

Similar problems must be avoided in any Food Stamp conversion. Food Stamps have a more direct cause-effect relationship with a low-income person's daily existence than did the services and benefits provided in previous blocks. To avoid delays in coverage, the provision cited above should include the following sentence: "The Secretary shall promulgate such forms and publish such filing schedules within thirty days of passage of this Act."

Citation #5

> "(2) No funds may be allotted to a block grant state for any fiscal year after the fiscal year in which such block grant State received funds under this section unless the legislature of the block grant State conducts public hearings, not less often than biennually, on the proposed use and distribution of funds to be provided under this section."

This provision poses a minor problem that concerns that institutional schedules and methods of deliberation within State Houses. The problem is the fact that many state legislatures still meet on an intermittent (as opposed to full-time) basis. The Kentucky General Assembly, for example, meets every other year. These same states, however, designate working groups, task forces and formal oversight committees which are qualified to meet on an interim basis. The referenced citation should add the following phrase after the words, "legislature of the block grant State": "or such interim committees authorized by the governing bodies of the state." This proviso will avoid procedural difficulties that some states experienced when trying to fulfill the public hearing requirements of the 1981 blocks.

Citation #6

> "(3) As part of the application required by paragraph (1), the chief executive officer of each block grant state shall certify in writing..."

This provision will provide a serious political controversy akin to Executive/legislative confrontations (at the state level) in the aftermath of 1981 block grants. This controversey concerns the jurisdictional struggle between a Governor and the respective state legislature. In a move that was initially upheld by the State Supreme Court, North Carolina Governor James Hunt successfully argued that he had the authority to design the implementation plan for the 1981 blocks since Congress' enactment of the blocks fulfilled the requirement for legislative processes. State legislative leaders unsuccessfully countered that the blocks were a financial program that should evolve through the usual legislative processes.

North Carolina is clearly an exception to the rule of comity that governs block grant implementation. To their credit, 49 states have developed amicable, constructive relationships between the governor and the general assembly regarding program implementation. In one state (Texas), the state legislature formally delegated financial, administrative and legal responsibility to the Governor. In other states (e.g., Vermont), the state legislatures have authorized limited autonomy of their governor, with the stipulation that a joint fiscal committee of the legislature approve funding allotments devised by the governor.

Nevertheless, the provision cited above very clearly designates the governor as the lead official charged with designing and certifying a block grant plan. His role is again referenced in section 6(A). While the governor is certainly the preferred source for certification/presentation of the state implementing plan, the specific options of a block grant (eligibility, distribution, etc.) should be a product of standard legislative/executive deliberations. I recommend that this potential controversey be avoided entirely by simply substituting the referenced citation with the following: "(3) As part of the application required by paragraph (1), the chief executive officer of each block grant state shall, after following established state legislative processes regarding block grants, certify in writing that the block grant state will —"

Citation #7

> "(A) assess on a regular basis the food and nutrition needs of needy persons residing in the block grant state;"

This provision portends major philosophical and practical problems that merit further study. On a philosophical level, the problem lies with the fact that a daily nutritional need does not vary from state to state. There is a national dietary standard against which nutritional needs/intake should be measured. The costs of meeting that standard may vary, such as the costs of food (which does, indeed, vary from state to state); but the standard itself is inherently static. A minimum dietary requirement does not vary.

On a practical level, the concerns explained above demonstrates one of the very few aspects of national welfare policy wherein the Federal government has a legitimate role. By allowing every state the discretion to define nutritional needs, S.1279 will create the possibility of 53 different nutritional targets. Policy discretion should not be confused with administrative discretion; the former allows states to devise their own nutritional standards for their citizens, whereas the latter allows states to devise the means and extent to which the nutritional standards will be met. In the area of income maintenance in general and nutritional intake in particular, the states should be given maximum administrative discretion. The policy discretion is not a fair tool for negotiating a block grant conversion; it is a symbolic remnant of this Nation's commitment to the needy. If the states are allowed to determine their own nutritional standards, shouldn't we also allow each state to determine the standards for grading meats, poultry and dairy products? Nutrition is neither a value judgment nor financing option that varies according to region.

I recommend that this provision be altered to read as follows: "(A) assess on a regular basis the most appropriate and cost-effective means for meeting the food and nutrition needs of needy persons residing in the block grant state;"

Citation #8

> "(B) use the funds made available to it under this section to raise the level of nutrition among low-income households residing in that block grant State;"

The unqualified phrase "low-income households" is inconsistent with Reagan Administration efforts to target entitlement programs to truly needy persons. As Members of this Committee are aware, this phrase is usually defined to exclude the many in-kind benefits for which "low-income" households are eligible. Net poverty — which is the dollar value of food, housing and medical benefits plus cash income — is a more reliable index against which we can identify truly needy individuals. It is for this reason that current Food Stamp rules link eligibility to 130% of the poverty level — not the actual poverty line. The unqualified context of the "low-income household" phrase cited above thus poses the risk of revising Food Stamp eligibility upwards. This action can easily raise costs excessively in order to accomodate re-entry of the less needy individuals who were dropped from the Food Stamp rolls after the initial Reagan reforms. (To cite a purely arbitrary figure, it can be noted that 850,000 people were dropped in 1981. This figure is contrasted with the 22 million individuals who were still served under the revised rules.)

To reinforce the Food Stamp reforms developed in 1981 and 1982, I recommend that an adjective be added to the phrase "low-income households": One possible amendment would be "among low-income households whose income is less than 130 percent of poverty as officially defined."

Citation #9

> "(E) provide for an audit (pursuant to paragraph (8), not less often than biennially, of the block grant State's expenditures of amounts received under this section;"

The provision for an obligatory state audit is similiar to requirements issued for the 1981 blocks. The problem that has developed since enactment of the 1981 blocks is that Federal agencies are being provided with 53 different audits. If audits vary according to the states, they will stand as very questionable documents for evaluating the success of the blocks (and compliance with Federal cross-cutting mandates). Hence, the audits serve no practical purpose other than as a token assurance that states will examine their own programs. Unless the audits are intended for a specific use, they serve basically to force states to spend money to prove they are administering a viable program. In other words, this provision serves no other purpose than to force states to develop an affirmative direct case that proves they are efficient.

The audit provision cited above should be modified to provide meaningful documents. This modification need not take the form of wieldy, punitive or time-consuming Federal regulations. The Congress can give the states complete freedom to devise their own methodologies, form, length and frequency of audits; yet they should still be obligated to produce meaningful statistics for comparison purposes. (In an indirect way, obligating all states to quantify the same types of progress will give states another incentive to produce a cost-effective program.) I recommend that the following phrase be added to the above citation: "and include in the audit an itemization of the following: administrative savings caused by state assumption of the program; nutritional needs that were attained by the program; increases or decreases in participants that are attributable to eligibility changes; increases or decreases in participants that are attributable to the new economic status of recipients; and instances wherein the block grant duplicated or accentuated similiar state programs."

Citation #10

> "(4) The Secretary may not prescribe the manner in which the block grant states comply with paragraph (3). Each block grant state may

> prescribe, and the Secretary may not limit, standards of or requirements for eligibility for benefits under this section. Such standards or requirements may include a requirement for work or household contributions, or both, as a condition of eligibility for benefits under this section."

This provision may prove to be the most controversial of all the provisions of S 1279. The first controversey concerns the elimination of the historical linkage between AFDC and Food Stamps. As explained in an earlier context (above), this linkage adds considerable credibility to the concept of a "safety net" for the truly needy. This provision terminates that linkage by delegating unrestrained policy discretion (for eligibility) to the states The issue here is not whether the states are compassionate or intelligent; nor is the issue whether the states are capable of devising a solvent system consistent with the will of the local electorate. Instead, the issue is whether two principal income maintenance programs — AFDC and Food Stamps — will be severed. Both AFDC and Food Stamps address separate, distinct needs (cash and nutrition, respectively) that (correctly) compensate for changes in one or the other category. If states are going to have complete policy discretion over Food Stamps, should they not have complete policy discretion over AFDC as well? That question is purely academic since this bill only completes one-half of that equation.

A second fundamental problem (also mentioned earlier) is the fact that states are not obligated under this bill to link eligibility with nutrition. As now written, S 1279 only requires states to "assess" nutritional needs (see Citation #7, above), not meet them. Food Stamps has no distinct purpose unless it is used strictly for meeting nutritional needs. The nutritional aspect of Food Stamps coverage is a primary, overriding aspect of this program. Linkage of Food Stamps with nutritional needs can be mandated in the context of a productive Federalism. Would such a mandate make Food Stamps just another categorical rather than block grant? No, it would still be a block grant to the extent that the states would use discretion for determining how to meet nutritional needs (e.g., benefit levels and duration). But the linkage with nutritional needs is essential for successful completion of the program purpose.

A third fundamental problem concerns the workfare option. For example, the provision is unclear regarding the effect that the workfare option will have on liability for error rates. If the subject state is already participating in workfare (via AFDC) and chooses to merge the two programs, would the state be obligated to isolate the two components? This is not an esoteric point; it is the sort of practical, programmatic questions that state and local officials will immediately confront.

The workfare option includes a reference to "household contributions" that is unnecessarily vague. The reference can be interpreted as requiring other members of the Food Stamp household to work. "Co-payment" may be an appropriate substitute in this instance, although that option (i.e., returning to one of the original Food Stamp requirements) may require further study.

Citation #11

> "(5) A block grant made under this section may not be used by the block grant State, or by any person with whom the block grant state makes arrangements to carry out this section, for the purchase, construction, or permanent improvement of a building or other facility."

This citation is a standard protection against misuse of categorical funds. There are clearly-defined public sector programs (e.g., Section 108) which can adequately assist with the site acquisition work proscribed in the above citation. The above provision is clearly (and correctly) designed to insure that program monies are actually spent for the intended purpose, i.e. the amelioration of nutritional deficiencies of intended recipients. In my professional experience, however, I have witnessed a variety of clever accounting and investment techniques designed to circumvent provisions such as the one quoted above. Basically, these techniques involve an indirect capitalization of program monies. I recommend that the following caveat be added: "Nor can states use proceeds from cash management of grants to undertake these activities. Nor may states pledge grants, portions of grants nor savings from grant efficiencies as collateral towards these activities."

Citation #12

> "(6)(A) The chief executive officer of each block grant state... may revise a plan prepared under this subparagraph and shall furnish a copy of the revised plan to the Secretary before its implementation."

Because of the time problems associated with Federal and state fiscal policies (see Citation #4, above), certain states can use this provision to gain tentative approval of a basic, somewhat incomplete state plan. This problem arose in isolated cases involving the education block grants and the Preventive Health Block Grant. This legislation (S 1279) must not encourage expeditious planning/certification at the expense of the truly needy. The overriding objective of the devolution process should be to facilitate cost-effective yet comprehensive plans that cover the truly needy. I recommend that the potential for abuse be prevented by adding the following phrase: "In the event that the revised plan constitutes a major amendment as defined by the Secretary, then the state program will be operated in accordance with the provisions of (b)(1)(B) until the Secretary approves a revised plan."

Citation #13

> "(3) Any funds paid to a block grant State under subsection (c) which are not expended by the block grant State in the fiscal year for which they are paid or in the succeeeding fiscal year may be expended by the block grant State on other social services provided pursuant to Federal law. The block grant State shall inform the Secretary of all such funds expended on other social services. If the block grant State elects not to expend all or part of the funds on other social services, the unexpended funds shall be returned to the Secretary and added to the amount available for allotment to all of the block grant States..."

In the nine blocks established in 1981, the issue of unexpended funds was resolved by authorizing states to transfer funds from one block grant to another. This option would not be appropriate for Food Stamps, since the subject block grant proposal is not part of a comprehensive income maintenance consolidation. Moreover, the issue of program solvency is less applicable to Food Stamps than the nine blocks because Food Stamps is (and should continue to be) designed to expand according to increases in the number of qualified low income individuals. The authors of S 1279 have wisely avoided any authorization relating to transfer of block grant funds.

The provision alluding to "other social services" is clearly designed for instances wherein states accrue funds in excess of actual need. This contingency, however, is rendered moot by the Federal-State disbursement policy set by the Intergovernmental Cooperation Act. For reasons explained in Citation #1, above, the ICA permits draw-downs only on "an actual and immediate cash need basis." Thus, there would not be the unexpended balances envisioned in the provision cited above. However, there may be savings which are recaptured through the three cost-saving amendments that I recommended earlier. To accomodate these accretions of funds, I recommend that the Committee consider three more amendments: One, authorize (or require) a carry-over of funds for the next state fiscal year in which the block will operate; two, authorize (or require) the establishment of cash reserves against which the state can draw in time of economic distress (recession); and/or three, authorize the states to initiate discretionary investment of these savings as part of their own cash management program.

Citation #14

> "(g)(1)(A)(i) A block grant State shall repay to the United States any amounts not expended other than in accordance with this section."

This provision avoids an excellent opportunity to legislate an error penalty. This penalty — a standard element in AFDC and Medicaid — should be set at an arbitrary, fixed number such as 10% of the error. The error penalty can be further refined to apply only to states with a 3%, 4% or 5% error rate. The penalty would have the aggregate advantage of reinforcing the cost-saving incentives itemized elsewhere.

Citation #15

> "(ii) The Secretary shall (in the absence of repayment by the block grant state under clause (i)) [sic] offset the amounts against any other amount to which the block grant state is or may become entitled under this section."

This legal authority to undertake action against a state unwilling to concede or compensate for an error serves as a contingency resource for recovering wasted monies. However, this authority does not provide sufficient incentive for the state to execute an expedited resolution of the alleged error — or compensation for the alleged error — that it is disputing. In the worst case scenario, this authority will serve only to penalize the needy, since the Federal action would (by definition) detract from the state's ability to underwrite benefit payments. An alternative authority would concern garnishment of other state resources such as General Revenue Sharing. By expanding the scope of sanctions, the Federal government expands the scope of constituencies who would encourage the state Food Stamp authorities to resolve the conflict.

STATEMENT OF BILLY G. DAVIS, DIRECTOR
DIVISION OF PUBLIC ASSISTANCE FRAUD
OFFICE OF AUDITOR GENERAL
STATE OF FLORIDA

This statement is filed for the record in support of S 1279, Food Stamp Optional Block Grant Act of 1983.

As Director of the Division of Public Assistance Fraud in the Office of the Auditor General, State of Florida, I have had the opportunity to testify on two separate occasions before the Senate Agriculture Committee concerning fraud in the Federal Food Stamp Program. The Program, as we now operate it, is heavily burdened with fraud and abuse. I estimate that in any given month more than $70,000,000 of food stamps are issued to people who committed fraud to receive them. In addition, there is constant trafficking in food stamps. The trafficking ranges from selling stamps at one-half of their value for cash, to that of using stamps to purchase drugs, etc. I strongly feel that cash given to the indigent for purchasing food would significantly reduce fraud and obviously stop trafficking.

In as much as cashing out the Program on a nationwide basis doesn't seem to be acceptable to Congress, S 1279 would give States the option to cash out the Program if they so desire. Further, S 1279 would permit States to set up their own eligibility criteria and the policies and procedures deemed necessary to implement the processing of application for and the issuance of stamps. At present time, it is extremely difficult, and sometimes impossible, to get the U. S. Department of Agriculture's FNS to give waivers for rules they have adopted even though a State may have a good plan that would aid in reducing fraud and waste. In other words, the opinion of the Federal Official(s) prevails over that of the State(s) Officials.

In addition, the policies and procedures now in existence to manage the Food Stamp Program in determining eligibility are cumbersome. Accordingly, errors are made that are in essence caused by the Federal Government. Afterwhich, the States are sanctioned for the errors. The policies and procedures governing the administration of the Food Stamp Program in Florida are literally one inch thick, printed front and back and, for the most part, single spaced. In my opinion, there is no mystery at all as to why people administering the Program make errors. In addition, when you consider some of the rules that exist in the Program, there is no mystery as to why fraud and abuse occur. As an example, everyone qualifying for food stamps can have an authorized representative to bring in an application for benefits and pick up the stamps. This is the type of a policy or rule that should be an exception rather than a rule and only permitted after the State has made a judgement as to the necessity for an authorized representative. There are many rules, such as this one, that States probably would not adopt if they wrote their own eligibility criteria and the policies and procedures for administering the Program.

While I could quote you several such rules, regulations, or policies and procedures that the Federal Government has implemented that States would like changed, or that they would eliminate if they were able to write their own rules, I think it suffices to state that people closer to the people, that is State Government administering to State residents, have a better understanding of how to effectively administer public aid programs than Federal officials in Washington have.

I am confident that most State officials probably feel as I do relative to who can better manage the Programs and that there will be significant opposition to S 1279. Therefore, some of these State Official's concerns must be addressed. For example, Florida is a rapidly growing State. Is this increased population going to be considered when grants are given? Also, as you know, in the past we have had an influx of refugees. Will this be considered in arriving at a block grant amount?

When these and other State's concerns are addressed clearly in S 1279, there is no doubt in my mind that we can better manage the Food Stamp Program to reduce fraud, waste, and abuse in the Program by being given block grants. Therefore, I applaud Senators Helms, McClure, East, and Nickles for S 1279. It constitutes a bold new approach to better serve the indigent of this Country and at the same time there are great possibilities of reducing cost.

(Prepared by the Staff of the Senate Committee on Agriculture, Nutrition, and Forestry, January 9, 1984, in response to Task Force Recommendation for Autonomous Food Assistance Programs.)

BACKGROUND ON NUTRITION PROGRAM BLOCK GRANTS

Overview

The U.S. Senate has passed legislation on two occasions permiting State option block grants for various nutrition programs--in 1980 for "child nutrition programs" and a second time, in 1982, for the food stamp program.

In addition to the Senate action, both Houses approved legislation in 1981, as part of the Omnibus Budget Reconciliation Act, requiring the conversion of the food stamp program in Puerto Rico to a block grant.

The Reagan Administration has proposed legislation in each year to consolidate various child nutrition programs into one or more mandatory block grants. However, these proposals have not included all programs. The national school lunch program, for instance, has not been included in any of the Reagan Administration's block grant proposals. Except for the Puerto Rico block grant, neither the Administration proposals nor the Senate-passed proposals have been enacted.

Following is a brief history of Congressional consideration of nutrition program block grants.

1977

The first legislation attempting anything resembling a "block grant" for nutrition programs occurred in 1977. Senators Henry Bellmon (R-Oklahoma), Pete Domenici (R-New Mexico), Richard Lugar (R-Indiana), and Milton Young (R-North Dakota) introduced S. 1094, the Food and Nutrition Program Optional Consolidation and Reorganization Act on March 23, 1977.

The bill would have permitted States to consolidate the various Federal nutrition programs and devise their own State programs to provide nutrition assistance.

No action was taken, nor hearings held during the 95th Congress (1977-1978).

1979

Senator Henry Bellmon (R-Oklahoma) and Senator Pete Domenici (R-New Mexico) reintroduced legislation, S. 605, on March 8, 1979, which would have permitted any State "the option of consolidating and reorganizing" the various child nutrition programs, the food stamp program, the expanded food and nutrition education program (EFNEP), and the commodity supplemental food program. (The programs included at that time under "child nutrition" were: the national school lunch program, the school breakfast program, the child care food program, the summer food service program, the special milk program, the special supplemental food program for women, infants, and children (WIC), the food service equipment assistance program (since eliminated in 1981), state administrative expenses, nutritional training and survey program, and special developmental projects.)

At a hearing before the Committee on Agriculture, Nutrition, and Forestry on December 11, 1979, Senator Bellmon modified his proposal to delete the inclusion of the food stamp program.

1980

Senators Bellmon and Domenici offered a modified version of S. 605 as an amendment to the child nutrition reauthorization bill, S. 2675, on July 24, 1980. In addition to deleting the food stamp program from the consolidation, the modified version was limited to permit only six States to participate in the consolidated block grant. The governors of seven States (California, Hawaii, Idaho, Maryland, Michigan, Montana, and Oregon) had indicated strong bi-partisan interest in the legislation.

The Bellmon-Domenici amendment was adopted by the Senate on July 24, 1980, by a 51-44 vote.

In conference with the House Committee on Education and Labor, major disagreements arose over the block grant approach, and several other issues. In the closing days of the 96th Congress, after the November 1980 elections, the child nutrition programs were reauthorized in separate legislation, the Omnibus Reconciliation Act of 1980, at the insistence of the House conferees without the inclusion of the block grant approach.

1981

The primary nutrition-related block grant proposal in 1981 was included in the Omnibus Budget Reconciliation Act of 1981. The Reagan Administration indicated its intention to submit legislation to require a block grant nutrition assistance program for the Commonwealth of Puerto Rico in lieu of operating the food stamp program in the commonwealth. Puerto Rico at that time had the largest food stamp program in the country, both in terms of cost (projected to be about $1 billion in fiscal year 1983) and in terms of percentage of the population participating (approximately 58 percent).

In the absense of specific statutory language from the Administration, the Senate Committee on Agriculture, Nutrition, and Forestry developed the block grant for Puerto Rico. The block grant funding for Puerto Rico was established at $825 million, 25 percent below projected program costs. (Because actual food price inflation has been less than was anticipated in 1981, the actual reduction in total benefits in Pueto Rico during fiscal year 1983 was about 15 percent less than would have been expected under the pre-1981 food stamp program, rather than 25 percent. The Puerto Rico provision was a part of reforms designed to slow the growth of the national food stamp program which adopted in the Omnibus Budget Reconciliation Act of 1981.)

Under the final version of legislation, the block grant was to take effect on July 1, 1982, and Puerto Rico was granted considerable latitutude in formulating a plan to meet the special needs of its low-income population.

1982

General Nutrition Assistance Grant

The Reagan Administration proposed a block grant, entitled the General Nutrition Asssistance Grant, in its fiscal year 1983 budget. The programs to be included in the block grant were school breakfast, child care food, summer food service, special milk, and nutrition education and training. (WIC and school lunch were not included.) The proposed funding level was $488 million annually.

In developing the dollar amount for the block grant, the Administration assumed the elimination of the special milk program, the nutrition education and training program, summer food service program, and the day care home portion of the child care food program, and therefore viewed the block grant as providing 80 percent of projected funding for the programs it would have continued. (The block grant represented a 42 percent reduction in the overall funding if all parts of all of the programs were considered.)

Block Grant for Territories

Additionally, the Reagan Administration budget provided for a separate block grant for the various nutrition programs currently operating in the U.S. territories, exclusive of Puerto Rico. The Administration made the argument that the categorical feeding programs as operated on the mainland were inappropriate for the insular areas. The Administration recommended that funding for all of the programs be consolidated and reduced by 15 percent, to accommodate for administrative savings from the consolidation.

Services for Women, Infants, and Children

For fiscal year 1983, the Reagan Administration also submitted in early 1982 a proposal to combine funding for both the existing special supplemental food program for women, infants, and children (WIC) and the Commodity Supplemental Food Program (CSFP) with an existing block grant (created in 1981) for maternal and child health.

The Administrtion proposed that funding for the new, consolidated block grant be $1 billion annually, a reduction of $356 million--or roughly 26 percent from what the programs cost individually in fiscal year 1982.

Under the Administration's proposal, States would be permitted to spend their funds for the broad purpose of improving maternal and child health without any specific directive as to how much should be allocated for health services or nutrition.

The new program, entitled services for women, infants, and children, would be Federally administered by the Department of Health and Human Services.

State Option Block Grant for Food Stamp Program

Senator Jesse Helms (R-North Carolina, Chairman of the Committee on Agriculture, Nutrition, and Forestry, proposed legislation in 1982, S. 2352, which would have permitted States the option of receiving a block grant for the administration of a low-income nutrition assistance program rather than operating the current food stamp program.

Under the Helms bill, a State's block grant amount was determined by the State's percentage of overall cost of the food stamp program in a previous 12-month period. Thus, if a State had received 3 percent of the national food stamp budget in the year ending March 31, 1982, it would receive 3 percent of the food stamp appropriation for fiscal year 1983.

Senator Helms argued that the block grant approach would permit greater flexibility in serving the nutritional needs of various State populations.

His approach was approved by the Committee on Agriculture, Nutrition, and Forestry, and passed by the Senate in its version of the Omnibus Budget Reconciliation Act of 1982, S. 2774.

However, House conferees opposed the State option block grant approach, and it was not included in the final version of the bill.

1983

Senator Helms reintroduced the state option block grant bill, S. 1279, on May 12, 1983. A hearing on the bill was scheduled for November 14, 1983, but had to be postponed because of the House-Senate conference meeting on the dairy and tobacco bill, enacted the last week of the session. The hearing will be held in early 1984.

The Reagan Administration submitted another version of its General Nutrition Assistance Grant for various child nutrition programs with its fiscal year 1984 budget.

Under the new proposal, the Administration proposed that the school breakfast, summer food service, and child care food programs be consolidated in a block grant to be funded at $535 million annually. The Administration's proposal was calculated to provide 85 percent of the projected fiscal year 1984 budget for the three programs included in the block grant. However, not included in the calculation for the block grant was the current portion of the child care food program which provides meals to family and group day care homes at a cost of $110 million annually; this part of the program is not means-tested.

No changes to the child nutrition programs were enacted in 1983, and the block grant proposal was not considered by the House or Senate.

Puerto Rico

As noted, the Commonwealth of Puerto Rico was required to undertake a block grant for its food stamp program effective July 1, 1982. Puerto Rico decided upon cash assistance in lieu of the traditional coupon, or voucher, approach.

The House passed legislation in 1982, subsequently adopted in the Omnibus Budget Reconciliation Act of 1982, requiring Puerto Rico to convert to a noncash approach on October 1, 1983.

In 1983, that deadline was first extended to January 1, 1984, and subsequently (on November 18, 1983) to October 1, 1985, at which time the Food Stamp Act will be subject to reauthorization. Thus, Puerto Rico continues to be able to operate its own "cash" nutrition assistance program.

(The following are two news columns, written by Senator Helms, to which he referred during the hearing on S. 1279.)

Report From U.S. Senator Jesse Helms
(Week of January 23, 1984)

WASHINGTON--During the month of December, I spent a substantial amount of time conferring with law enforcement officials about their problems in dealing with crime in North Carolina. I wanted to know what I, as a United States Senator, might do to be helpful to them.

In many instances I found that these officials feel that they are involved in a losing battle--against drug traffic, crimes of violence, white collar crime, and countless other serious violations of the law.

FOOD STAMPS--In a conference with the U.S. Attorney for North Carolina's Eastern District, I learned that, in the view of the law enforcement officials, the problem of the greatest magnitude--in terms of numbers--is the enormous amount of fraud in the food stamp program.

In 1981, when I became Chairman of the Senate Agriculture Committee, which has jurisdiction over the food stamp program, I expressed concern at the number of reports reaching me that the taxpayers were being "ripped off" by crooks who were dealing fast and loose with food stamps. Immediately I was attacked by the editors of many of North Carolina's major daily newspapers. They claimed that there was very little fraud in the food stamp program, and that I was exaggerating the situation. (How they arrived at the conclusion, they never said.) Nevertheless, I insisted that the U.S. Department of Agriculture beef up its investigating force and that the USDA's Inspector General assign more personnel to probe the reported abuses of the food stamp program.

CORRUPT--A week or so ago I talked with one of the agents assigned to North Carolina. He said, "Senator, there's no way to overstate the corruption in the food stamp program. Everywhere we turn, we find people who are making a big business of stealing from the taxpayers through the food stamp program."

Sam Currin, U.S. District Attorney for the Eastern District, has reached the conclusion that "the magnitude of the problem is so great that, in spite of what we are doing, fraud is virtually beyond the reach of prosecutors and agents. Congress has created a monster that we quite frankly cannot control in law enforcement."

Then Mr. Currin added, "Congress might as well print up 12 billion dollars in counterfeit money each year and just pass it out. After all, food stamps have become virtually a second currency. Anything you can buy with money you can buy with food stamps.

AGENT--The investigator from the USDA's Inspector General's office said the same thing. He told me that he and other investigators are finding--without any difficulty at all--wholesale corruption in the food stamp program everywhere in North Carolina. He mentioned several of our state's larger cities as being a center for this corruption.

"All I have to do," he said, "is go down on the streets and put the word out that I'm ready to 'deal' in food stamps. Within 24 hours, I have more contacts than I can handle". He shook his head sadly: "If we had enough people to do the job, we could catch at least 50 times as many crooks."

SLOW--But once criminals have been caught and arrested, the process of bringing them to justice is slow. Many of the criminals dealing in food stamps are big-time operators. They hire capable attorneys who know how to delay bringing these operators to trial. In 1983, 68 defendants were convicted in eastern North Carolina. In the Middle District, about 150 were arrested in a two-month crackdown. Almost 100 were indicted in the Western District.

Law enforcement officers agree that for each person arrested and indicted, many other go undetected, and therefore continue to rip off the American taxpayer who are forced to provide approximately $12 billion per year to finance the food stamp program.

When you consider that this is going on in all 50 states, and the District of Columbia, the enormity of what it is costing you as a taxpayer becomes evident.

I wonder if the big-city newspaper editors still want to contend that I have been exaggerating the seriousness of the corruption in the food stamp program?

Report from U.S. Senator Jesse Helms
(Week of January 30, 1984)

WASHINGTON--In last week's report, I discussed the wholesale corruption in the food stamp program. I also pointed out that despite the best efforts of law enforcement officers on the federal, state and local levels, only the surface is being scratched in terms of eliminating the rampant fraud in the program.

This is an illustration of how good intentions are turned aside when such enormous federal programs are created. The tragedy of the food stamp program is that the truly needy are the ones being done the most harm. On top of that, the taxpayers are justified in resenting such waste and abuse of their tax dollars.

COST--The fiscal year--which began October 1--the food stamp program is projected to cost the taxpayers approximately $12 billion. Much of this falls into the hands of crooks. The amount of money involved even entices crime mobs to move in on occasion. So the ripoff of the taxpayers is by no means limited to petty thievery. Not long ago, a state senator in Maryland was sent to prison for engaging in food stamp fraud involving tens of thousands of dollars.

I have endured a lot of criticism from various big-city newspaper editors since I announced in 1981 my intentions to crack down on food stamp fraud. Some of these editors protested that I was exaggerating the situation--that there really wasn't very much fraud in the food stamp program.

But I insisted that the program be investigated by special agents of the Inspector General's Office. The amount of fraud already revealed is amazing--and yet, as I said earlier, law enforcement officers agree that only the surface is being scratched. Far more needs to be done. But it will require far more investigators than are now available, and further tightening of the program's operation.

CORRUPTION--Direct links have been uncovered between drug dealers and crooks who are lining their pockets with profits from the food stamp black market. Food stamps have become a second currency. They are being used to purchase everything imaginable--drugs, guns, automobiles, alcoholic beverages, prostitution. You name it; it has been purchased with food stamps.

I became Chairman of the Senate Agriculture Committee in January 1981. The full name of the Committee is the Senate Committee on Agriculture, Nutrition, and Forestry. The Committee has the responsibility of monitoring all aspects of agriculture, feeding programs (such as food stamps, school lunches, etc.), plus the nation's forests. It was my duty to insist that all programs under the Committee's jurisdiction be operated efficiently, and in manner fair to the taxpayers.

I did insist, and the programs are being improved. I don't apologize to the newspaper editors or any of my other critics for demanding the strict oversight be conducted concerning all of these programs. We have saved the taxpayers countless billions of dollars--but more needs to be done.

And if I have my way, it will be done.

(Chairman Helms solicited the views of the Nation's governors with respect to the food stamp block grant legislation. Their responses are printed here.)

STATE OF TEXAS
Office of the Governor
Austin, Tex., January 11, 1984.

Dear Chairman Helms:

Thank you for your request for my recommendations on operating a low-income nutrition assistance block grant in lieu of the food stamp program.

While I concur with you that our experience with federal food stamp program rules, regulations and funding levels has been problematic, the block grant approach has not resolved the fundamental issue of adequate funding to meet basic nutrition needs of the truly needy in our state.

From my perspective, basic nutrition of the citizens of the United States should not be left to the dynamic fluctuations of economic and population trends in each state. Rather, nutrition is an issue of national import and reflective of national and international conditions. As such, food stamps should be continued as a federal program, which states assist in administering.

While S. 1279 recognizes the need to maintain federal financial commitment at current levels, the legislation sets a cap at the current level of nutrition services. As you are aware, Texas is expanding in population by 667,000 this year. While we are taking initiatives to expand and diversify the Texas economy, it is possible that approximately one-fifth of these people will live in poverty if national trends continue.

I commend you on your interest in improving the food stamp program and will assure you that Texas will continue to administer this program in an efficient and cost-effective manner, and to improve the program where possible.

Yours truly,

Mark White, Governor of Texas.

STATE OF WASHINGTON
Office of the Governor
Olympia, Wash., January 23, 1984.

The Honorable Jesse Helms, Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
SD-402 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Helms:

This is in response to your December 22, 1983, letter outlining proposed legislation to permit states to operate a low-income nutrition assistance program block grant in lieu of the Food Stamp Program.

Although, in general, block grants have a certain appeal to the states because they provide an opportunity to design programs which are responsive to local conditions, they also cause concerns. Too often in the past, we have seen block grants which have resulted in an unreasonable reduction in program funding and extensive Federal regulatory activities. For example, the legislation suggests that the Department of Agriculture would have minimal responsibility, primarily oversight, in the states' operations. This responsibility should be carefully defined to ensure that states, in fact, will have the flexibility that accompanies the administrative responsibility of a block grant. Further, states should have sufficient funding available to be responsive to changing economic conditions in a timely manner.

Specific comments are as follows:

Funding:

The proposed funding formula/state allocation of funds contained in the legislation is troublesome. One of the major determinants of current food stamp expenditures is the public assistance (primarily Aid to Families with Dependent Children) payment levels in the individual states. Recipients in states with high AFDC payment levels, for example, receive smaller food stamp allotments than do similarly situation recipients in states with lower AFDC payment levels. In turn, total food stamp payments into the states with lower welfare levels are greater than those with higher payment levels. This same disparity would be reflected in the proposed funding formula.

The differential welfare payment standards among the various states reflect a multitude of factors, values and attitudes which may or may not reflect the actual level of "need" within a particular state. Rather than continuing the inequitable distribution of funds, a fairer division of funds is needed that would reflect (1) the needs of the state population and (2) the abilities of the states to meet these needs. One proposal that appears to hold promise would be to base the allocation of (1) the number of persons with incomes below the poverty level within a state as reflected in the Representative Tax System (RTS), which has been calculated by the Advisory Commission on Intergovernmental Relations. There may be other distribution forms that merit consideration as well. Whatever distribution form is used, it should validly reflect the needs and fiscal abilities of the individual states, keeping in mind future changes within the states and the ease of administration.

Program Changes:

Should the state have the ability to shape its own program, it would consider the following program changes in operating a state nutrition assistance program:

- Categorical eligibility for all households on public assistance;
- Eligibility and benefit levels based on gross income;
- Elimination of standard, medical, and shelter deductions;
- Redefinition of household composition;
- Work requirements for employable household members; and
- Cash-out food coupons with recipients receiving benefits by warrant.

Potential Savings:

If the Public Assistance programs were cashed-out, the estimated annual administratives savings (based on the last six months' caseloads) would be $741,188.80, one-half of which would be state share. This estimate reflects the cashing out of those public assistance households in which all members receive public assistance grants. If additional households, e.g., assistance households containing individuals not receiving public assistance payments, were also chased out, estimated savings would be greater.

Thank you for this opportunity to respond to this proposed legislation.

With best wishes,

Sincerely,

John Spellman, Governor.

STATE OF TENNESSEE
Office of the Governor
Nashville, Tenn., January 23, 1984.

Honorable Jesse Helms
United States Senate
Chairman, Committee on Agriculture,
Nutrition, and Forestry
4123 Dirksen Building
Washington, D.C. 20510

Dear Senator Helms:

Your proposed legislation establishing a block grant approach to the Food Stamp Program affords the states maximum flexibility in administering this important program. Those states choosing to remain in the existing program may do so while those that wish to explore alternative approaches also may do so.

We appreciate the opportunity to offer comments on specific provisions of S. 1279.

1. From Tennessee's perspective, the base period you propose (April 1, 1982, to March 31, 1983) is acceptable. Even though you have provided a minimum payment level of at least 0.25% for all states, a number of which currently do not spend at that level, the provision that permits consideration of alternative formulas should protect every state's interest.

2. While we have not conducted a formal study of anticipated savings under your proposal, there is little doubt that a number of alternatives available to the states under your plan would reduce administrative costs.

3. In determining if Tennessee would opt for a block grant the two most attractive changes we would closely examine are (1) consolidation of policy and (2) cash-out of benefits. We are convinced that our needs-based income maintenance programs can be greatly streamlined and simplified if we are permitted to (1) align the definitions used by the respective programs and (2) treat income and resources the same in all programs. We are also convinced that the maintenance of Food Stamp benefits issuance systems is extremely costly. The printing of coupons, the maintenance of issuance sites, necessary staffing for issuance, and the provision of security systems--both centrally and locally--have created a second tier to the national currency system.

4. One area of concern to me is the requirement that states opting for the block grant "assess on a regular basis the food and nutrition needs of needy persons residing in the block grant state." As you are aware, the President's Task Force on Hunger has recently recommended an improvement in the data gathering on the nutritional status of

Americans. If such an assessment is to be made, the assessments should be made in uniform ways across the country. Regional and state differences should be reflected in the assessment so that changing nutritional needs are visible to Congress and the states.

Thank you for the opportunity to review and comment on this legislation. Your practice of surveying the states on such matters is most encouraging and should result in the strongest possible legislation.

Sincerely,

Lamar Alexander, Governor.

STATE OF COLORADO
Office of the Governor
Denver, Colo., January 23, 1984.

The Honorable Jesse Helms
Chairman of the Committee on
Agriculture, Nutrition, and Forestry
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

My staff and I have reviewed Senate Bill 1279 which you kindly transmitted to me on December 21, 1983.

I believe that this proposal for an optional block grant would serve to place a cap on the federal share so that federal funds will no longer change readily as the number of eligible needy persons increases or decreases in an individual state. Moreover, the block grant moves away from enforceable national standards and could appear to be the beginning of a process to turn back this federal responsibility to the states.

I recognize that you state your approach will maintain the federal financial commitment while at the same time permitting greater flexibility for states to operate programs more uniquely designed to fit their specific needs. You also propose that the block grant is optional with each state and that individual states could remain with the present Federal Food Stamp Program without prejudice. I have serious concerns about this being a "camel in the tent" approach which would ultimately serve to transfer this federal responsibility back to the states.

Accordingly, I am opposed to this concept of optional block grants. Therefore, I do not believe it would be appropriate to respond to your request for recommendations on the proposed base period, the amount of administrative savings, if any, we might realize and what changes from the current program, if any, we would most likely make in the event we opted for the block grant approach.

I would reiterate the position taken by the National Governors'Association in a letter to Mr. James Clayburne LaForce, Jr., Chairman, President's Task Force on Food Assistance, dated January 6, 1984. "Shifting the costs from federal to state level is not the appropriate response. Neither is further curtailment of federal programs."

We in Colorado are ready and willing to work with you and others to examine the problems and draft an approach that is efficient yet meets the needs of the nation's hungry.

Sincerely,

Richard D. Lamm, Governor.

STATE OF WEST VIRGINIA
Office of the Governor
Charleston, W.Va., January 24, 1984.

Dear Senator Helms:

Thank you for forwarding a copy of S. 1279, Food Stamp Optional Block Grant Act of 1983, which would permit states to operate a low-income nutrition assistance block grant in lieu of the food stamp program.

While the block grant approach allows a state greater flexibility in establishing eligibility criteria and benefit levels in the food assistance program it also creates potential problem areas that are difficult to completely resolve. The major area of potential problem is, of course, the program's funding. The allocation of funds as proposed in S. 1279 addresses this problem on an initial basis but does not take into consideration fluctuations that may occur in a state's economy over a several year period. The funding formula described may be most adequate during the first year and insufficient in succeeding years, which would require the state to reduce benefits.

Another area of concern is the benefit levels under the block grant system. Currently, regardless of where a program participant resides in the continental United States, his or her benefit is the same. Variation in states' benefits would surely be the result of a block grant, although the cost of food is not greatly different in most parts of the country. This was an area of great concern in the food stamp program prior to 1971, when food stamp benefits were based on the state's standard of public assistance.

The concept of a uniform national standards for the food stamp program is a good idea which has been carried to an extreme. Basic, simple eligibility criteria, which can be understood by program participants, the general public and program staff, as well as standard benefit levels, would be acceptable to the majority of states. Unfortunately, the concept has encompassed virtually every phase of the program to the point it affects even the state's administrative structure.

I agree there are some things that need correction in the food stamp program as it is administered at this time, but I do not believe the solution to these problems is to turn all of its administration over to the states. Legislation to both simplify the current program and to make it more compatible with the AFDC program would, however, resolve the majority of the problems being experienced presently.

I very much appreciate the opportunity to provide you with these comments and if I may furnish you with additional information, please do not hesitate to contact me.

Sincerely,

John D. Rockefeller IV, Governor.

STATE OF ILLINOIS
Office of the Governor
Springfield, Ill., January 31, 1984.

The Honorable Jesse Helms
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

Last month you wrote to me detailing your proposal to create a low-income nutrition assistance block grant to replace the food stamp program. I would like to take this opportunity to share with you some of the concerns we have with this concept from a state perspective.

It has long been my position and also that of the National Governors' Association that a national income security standard should be a matter of national policy.

A low-income nutrition assistance block grant in lieu of the food stamp program would move us in the opposite direction. A block granting of the program would credit inequities between states which have differing standards. Many of the welfare programs were created to lessen the wide disparities that previously existed with the nation's poor.

Although we in Illinois have experienced great success with the other block grant programs and are supportive of such efforts this is not the case with an entitlement program. The task of making allocation determinations in advance of knowing for certain the number of potential beneficiaries would be impossible.

The opportunity to share my concerns with you is very much appreciated. Although I cannot support the current block grant proposals, I commend you in your efforts to strengthen and improve the food stamp program.

Sincerely,

James R. Thompson, Governor.

STATE OF INDIANA
Office of the Governor
Indianapolis, Ind., January 31, 1984.

The Honorable Jesse Helms
United States Senate
Committee on Agriculture, Nutrition,
and Forestry
Washington, D.C. 20510

Dear Senator Helms:

We have received your recent letter concerning previous legislation (S. 1279) that you had introduced which would permit States to operate a low-income nutrition assistance block grant in lieu of the current Food Stamp Program. While such legislation is always tempting from the point of view of the State's ability to make rules, the potential economic repercussions of such an option remains an area of concern. Of further concern is responsibility (and capability) of a state to identify the population to be served and the standards and requirements for program eligibility.

Many of the major points that you had advocated in the block grant concept have been incorporated into recent major federal regulatory changes. The general trend of these recent changes is toward tightening the program to ensure responsible expenditures. The four regulatory tools by which this is to be accomplished are:

1. Monthly reporting and retrospective budgeting are being directed toward those food stamp households whose circumstances are error-prone. In addition, a simplified method by which household circumstances are calculated to determine entitlement has been mandated.
2. The penalties for intentional Program Violation by participants have been materially increased.
3. The United States Department of Agriculture may impose fiscal sanctions or incentives determined by a state's

operation of its program, measured by the Quality Control payment error rate.

4. Recent regulations, generally categorized as "Administrative Flexibility Rules," have reflected an express intent to provide states with a means to tailor their operations to conform to their caseloads.

We certainly welcome these changes and believe that a more simplified, logical, and responsible approach to meeting the needs of our citizenry is now becoming more viable to the states.

In summary, I believe that the recent program changes will provide us with the capability and flexibility necessary to provide nutritional assistance to our citizenry and fulfill our fiduciary responsibilities to the taxpaying public.

Sincerely,

Robert D. Orr, Governor.

STATE OF WISCONSIN
Office of the Governor
Madison, Wis., January 31, 1984.

The Honorable Jesse Helms
United States Senator
Chairman, Committee on Agriculture,
  Nutrition, and Forestry
Washington, D.C. 20510

Dear Senator Helms:

Your letter of December 22, 1983 asked for our analysis and consideration of S. 1279 which would permit states to operate a low income nutrition assistance block grant in lieu of the food stamp program. The purpose of the bill is to allow states greater discretion in setting elibility criteria, benefit levels and determining administrative procedures for carrying out the program. Our review of the bill indicates two major concerns with the proposed changes.

First, the proposal transfers to the states a responsibility which appropriately belongs to the federal government as part of its role to develop a national income security policy. The state governor's commitment to this policy was reaffirmed nearly two years ago through the National Governors' Association policy position on the matter. That position stated the following:

> "The National Governors' Association strongly supports the principle that the federal government should accept the primary responsibility for financing income security programs for the poor and opposes any further cuts in the level of federal support for such programs. Such programs should at a minimum

provide for some basic level of food, shelter, transportation, clothing and health care for all persons below an established minimum income level."

We see the provisions of S. 1279 as moving away from this policy position and establishing the initial step toward the eventual transfer of this reponsibility to state and local governments. Although S. 1279 does provide for an appropriation, our experience with some of our block grants shows a decreasing federal commitment. We are concerned that the financing of this essential nutrition assistance program would follow a similar path.

Second, the provision to permit states to decide whether to stay in the food stamp program or receive a block grant is also troublesome. States selecting the block grant would be free to decide benefit levels and eligibility criteria. This would have the effect of abolishing uniform standands and would make eligibility for food assistance dependent upon where a person lived rather than upon individual need. Since this approach moves away from enforceable national standards, we are concerned that needy individuals in some parts of the country will be denied assistance. If federal funds are capped and caseloads rise, states would be forced to curtail services and benefits.

I hope our comments are helpful to your committee. I appreciate the opportunity to raise these concerns with you.

Sincerely,

Anthony S. Earl, Governor.

STATE OF OREGON
Office of the Governor
Salem, Oreg., February 1, 1984.

The Honorable Jesse Helms
Committee on Agriculture, Nutrition, and Forestry
United States Senate
Washington, D.C. 20510

Thank you for your recent letter and for sharing with me your proposed legislation concerning low-income nutrition assistance block grants.

After reviewing S. 1279, I find it to be a positive piece of legislation and worthy of serious consideration in Congress.

I believe the major advantage of this bill is that it gives states flexibility in determining eligibility levels and requirements, income levels, administrative procedures and methods of distributing benefits. I would assume that under the block grant option, states would be free to "cash out" all of their nutritional assistance to clients and, thus, avoid having to administer an expensive and error-prone coupon issuance system. I also support the feature that makes the block grant an option which states can elect to take each year as an alternative to the current Food Stamp Program.

With respect to some specific features of the bill, I have attached an analysis prepared by one of our state agencies at my request. Perhaps it will be of help to your staff.

Sincerely,

Victor Atiyeh, Governor.

STATE OF OREGON INTEROFFICE MEMO

TO: Keith Putman, Administrator
Adult and Family Services Division DATE: January 23, 1984

FROM: Mike Kane, Manager
Income Maintenance Section

SUBJECT: Briefing on Senate Bill 1279 - Jesse Helms' Letter

This bill has many improvements over the previous block grant bill proposed by Senator Helms. The background and discussion information indicates that comments on the previous block grant bill and the results of block grants already initiated have caused this particular bill to be written the way that it has. The analysis of this bill is positive since it appears that it will in fact give the states more flexibility in running a Food Stamp Program.

Annual option

Favorable aspects include election by the states annually to participate (b)(2), ". . . the State shall give notice to the Secretary of such election at least thirty days before the beginning of the fiscal year it elects to operate the program." This would give the state the option each year of deciding whether or not it could participate in the block grant. This flexibility allows the states in obtaining funds based on what is most favorable for the state.

Base period for establishing the funds are to be given to the states.

April 1, 1982 through March 31, 1983 is the 12-month period for which the block grant amount would be based. This is very favorable for Oregon since the highest period of participation for Oregon was during that time.

Food assistance for needy persons, (b)(1)(A).

It appears that this reference in the bill could limit the states from having a cash-out of food stamps, such as Oregon has decided to do in the past. Also, the references in (d)(3)(A) and (B) would indicate that giving the household cash would not meet the intent of this bill, " . . . assess . . . nutrition needs of needy persons . . ." and ". . . raise the level of nutrition ...".

Funds for block grants released at the beginning of the year, (f)(1).

One of the major advantages of this block grant bill would be the releasing of funds to the state at the beginning of the year. This would allow the state to deposit the money in their bank account to draw interest.

Use of funds on other social services, (f)(3).

The bill allows for states to expend funds on other social services if the funds in the block grant have not been used, ". . . funds paid to a block grant State under subsection (c) which are not expended by the block grant State in the fiscal year for which they are paid or in the succeeding fiscal year may be expended by the block grant State on other social services provided pursuant to Federal law . . .".

Uncertainties about future funding formulas, (i)(1).

The bill is unclear on what formulas will be used in future years for establishing funding to the block grant states. The bill simply says ". . . formulas shall provide for the equitable distribution of the funds to block grant States and take into account the population, number of low-income households, financial resources, levels of unemployment, and such other factors within the block grant States which the Secretary deems appropriate." This does give the feds a way out if the block grants prove to be too costly.

Lower benefits for households.

Lower amounts of benefits could eventually occur for households as a result of federal actions. Federal action to change the formula for block grants could reduce the funds available causing a decrease in benefits to clients.

No limit of standards or requirements for eligibility, (t)(4).

Complete flexibility for the policy governing eligibility for benefits is given to the state. This is a definite advantage to the state allowing administration of the program as it wants, but a disadvantage insofar as vulnerability to state legislative pressure to make changes in much the same manner as the ADC, JOBS and other programs in which general funds from the state are involved.

Some limiting requirements by feds, (d)(3).

There are four things which are required from the block grant state: (1) there must be, on a regular basis, an assessment of the food and nutrition needs of needy persons residing in the block grant state; (2) the funds in the block grant must be used to raise the level of nutrition among low-income households; (3) not less than annually or possibly biennially, it is unclear which, an audit of the states expenditures of amounts received; and (4) a description of how the state will operate to administer the block grant funds.

STATE OF MARYLAND
Office of the Governor
Annapolis, Md., February 2, 1984.

The Honorable Jesse Helms
Chairman
Committee on Agriculture,
Nutrition, and Forestry
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

Thank you for your letter of December 21, 1983 concerning your proposal to permit States to receive nutrition assistance block grants in lieu of participation in the Federal Food Stamp program.

As I am sure you know, in the past Maryland has joined with many other States in opposing block grant proposals which have the effect of significantly reducing revenues for much-needed services and benefits. We have similar concerns regarding a transfer of responsibility for the Food Stamp program from the Federal government to the States.

The program as it is currently designed is highly responsive to economic trends such as high unemployment. It is unlikely that a block grant system administered by the States could be equally flexible in responding to unanticipated changes in need, especially when the changes result from national rather than State circumstances. For this reason, Maryland remains opposed to nutrition assistance block grant proposals.

Although we disagree on this specific issue, we appreciate your effort to seek input from the States concerning proposed changes to the Food Stamp program.

Sincerely,

Harry Hughes, Governor.

STATE OF NEW MEXICO
Office of the Governor
Santa Fe, N. Mex., February 6, 1984.

The Honorable Jesse Helms
United States Senator
Chairman, Committee on Agriculture,
 Nutrition and Forestry
Washington, D.C. 20510

Dear Senator Helms:

I have reviewed your proposed legislation, S. 1279, providing states the option to operate a low income nutrition assistance block grant instead of the current food stamp program. I reaffirm my original position against the administration's proposal to transfer the food stamp program or an alternative to the states. My position is consistent with the responses filed by the National Governors' Conference Committee.

Although your legislative proposal contains a federal funding formula and a few other positive revisions to the administration's original plan to transfer social programs to states, they are not adequate for me to be interested in requesting a block grant to replace the current food stamp program. I will identify the major impediments contained in your legislative proposal which would make it impossible for me to choose to exercise the option for a block grant.

The funding formula is inadequate because food stamp issuance for the twelve month period ending March 31, 1983, does not contain a subsequent adjustment for inflation, nor does it provide for funding adjustments which may be required for down turns in other economic indicators such as increased unemployment. It is also noted that the funding schedule is based upon the period following the implementation of the cost-saving mandates contained in the Omnibus Budget Reconciliation Acts of 1981 and 1982. These mandates were designed to cut expenditures in the food stamp program without regard to impact upon the low income citizens they affected. I do not anticipate that any governor could opt for the block grant without a proviso permitting funding adjustments in cases of unanticipated down trends in the national economy.

It must also be noted that the funding schedule does not provide for funds when a state experiences a natural disaster.

I believe in Indian self-determination and I have originated enhanced communication and coordination between state officials and the various Indian tribes. This legislation could cause serious problems between state government and the tribal organizations. Your legislation enables Indian tribes to request administration of their own nutritional assistance program when the state exercises the block grant option. I would expect each tribal organization in this state to request administration of their own nutrition program. There are twenty-two tribes who could meet the criteria for administering their own programs as defined in your legislation. A division of the estimated $104 million identified in your funding formula as New Mexico's share of block grant funds would be inadequate when divided among twenty-three independent nutrition programs. The administrative costs would be increased dramatically which would further decrease funds available for benefits. In the event one or more of the authorized Indian programs should have a budget shortfall, for whatever reason, the state would be responsible to provide funds to carry the program until the next budget cycle began. The state would also be responsible to provide assistance to needy households when the direction of the Indian program may be unnecessarily restrictive in its eligibility criteria and/or benefit levels.

I approve of the cash out in lieu of the requirement to barter with food coupons in the food assistance program. The requirement to issue food stamps instead of cash is costly and administratively complicated. I believe cash out for all recipients would benefit administrators, clients and retailers. We would plan to redirect any funds saved in the administration of the program into increased benefits for our citizens.

Sincerely,

Toney Anaya, Governor.

STATE OF NEW JERSEY
Office of the Governor
Trenton, N. J., February 24, 1984.

Honorable Jesse Helms
United States Senator
Chairman, Committee on Agriculture,
 Nutrition, and Forestry
402 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Jesse:

I am writing in response to your letter of December 21, 1983, requesting my review of and comments on a State block grant cption for the Food Stamp Program.

I am in agreement with the National Governors' Association's (NGA) policy opposing a block grant approach to the Food Stamp Program. There is an unquestionable need to simplify the administration of the Food Stamp Program, but an even greater need to assure federal assistance to the nation's poor. The attached letter which I co-authored with Governor Richard D. Lamm, on behalf of NGA, to the Chairman of the President's Task Force on Food Assistance explains my position on this issue. The dual goal of simplifying program administration while continuing adequate funding can be reached by providing states with more options and flexibility within the framework of a federally funded Food Stamp Program.

Although New Jersey is opposed to a block grant approach to the Food Stamp Program, I wish to briefly address the specific questions raised in your letter.

With regard to the funding formula and the base period to be used, I believe that the base period utilized should reflect the most current data available so that funding levels approximate as closely as possible the level of expenditure which can be anticipated by the state. I would also question the proposal to guarantee a minimum grant of at least one quarter of one percent of the total appropriation to each state. A quick perusal of the chart provided in the Congressional Record of May 12, 1983, shows six states that would receive a windfall of extra food stamp appropriations, while the larger states would be penalized to make up the difference.

Without extensive research, it is difficult to estimate the amount of administrative savings that would be realized from a block grant approach. However, due to the administrative costs involved in essentially creating a new program, providing training and implementing new procedures, the savings at least initially, would be minimal.

With regard to the changes we would make under a block grant, the major two would be to streamline the budgeting procedure and then bring Food Stamp regulations in line with those of the AFDC program.

Thank you for affording me this opportunity to share with you the concerns of New Jersey on this issue.

Sincerely,

Thomas H. Kean, Governor.

STATE OF MASSACHUSETTS
Office of the Governor
Boston, Mass., February 29, 1984.

Mr. Jesse Helms, Chairman
Senate Committee on Agriculture,
Nutrition, and Forestry
Washington, D.C. 20510

Dear Senator Helms:

I am writing in response to your letter regarding legislation which you introduced, S. 1279, that would permit states to operate a low-income nutrition assistance block grant in lieu of the food stamp program.

It is my strong conviction that programs which clearly affect the basic needs of citizens and promote the general welfare of families should be funded by the federal government and enjoy the protection of federal standards. A block grant program that allows states to set eligibility criteria and benefit levels would contain the worst features of the AFDC Program and cause hardship among the needy in local areas beset by economic recession and unemployment.

The major rationale you offer for such proposal is the current complexity of federal regulations governing the food stamp program. It seems to me that an appropriate response to this problem is a revision of those rules and regulations. Adding an optional block grant program with no federal guidelines for eligibility and benefit levels gives flexibility to states at the totally unacceptable costs of equity and fairness to beneficiaries of the program.

Finally, the Federal Food Stamp Program, prior to the cutbacks to which the Reagan Administration subjected it, was an effective program which raised the nutritional standards of millions of the working poor in this nation.

The solution S. 1279 proposes bears no relationship to the widespread problem of hunger and malnutrition in this nation of plenty. I will vigorously support only those proposals which promise to meet the staggering unmet health and nutrition needs of American citizens.

Sincerely,

Michael S. Dukakis, Governor.

STATE OF MICHIGAN
Office of the Governor
Lansing, Mich., March 14, 1984.

The Honorable Jesse Helms
United States Senate
Committee on Agriculture, Nutrition, and Forestry
Washington, D.C. 20510

Dear Senator Helms:

Thank you for your letter, accompanied by your floor statement, regarding S. 1279 which proposes to eliminate that food stamp program and substitute a block grant at the option of the individual states.

I cannot support such a proposal because food stamps provide a widely available supplement targeted to a very basic human need. The food stamp program's fundamental goal, as the President's Task Force on Food Assistance recently noted, "is to provide low-income households with a more nutritious diet." Even though the actual benefits may not entirely meet this goal, nutritional supplementation is an important national responsibility and should be addressed by a uniform national program. The food stamp program, while less than perfect, passes this test.

If Puerto Rico's experience with a nutrition block is any indication, the country will simply lose a valuable food assistance program. As you know, Puerto Rico "cashed out" food stamps and kept expenditures within the block grant by reducing eligible households and benefits. Puerto Rico's program is not as well targeted as food stamps because there is no assurance that funds are spent on food.

Finally, it is not possible for Michigan to support a proposal which contemplates a reduction in federal assistance for needy people. The funding formula contained in S. 1279 would stabilize federal funding as of a particular time. The food stamp program does not have this built-in disadvantage: as need increases because of economic fluctuations, so too does the eligible group. Of course, food stamp benefits are inflation indexed. As the population in need increases and inflation continues, even at reduced levels, some level of government must make up the difference in the scope and adequacy of food assistance benefits. As the Governors of Colorado (Mr. Lamm) and New Jersey (Mr. Kean) recently said in their letter to the President's Task Force on behalf of the National Governors' Association, a block grant for nutrition assistance appears "to be the beginning of a process to turn back this Federal responsibility to the states." I am concerned that such would be the case if S. 1279 is enacted.

I do appreciate the opportunity to comment on your proposal and the thoughtfulness that solicits evaluations from states such as Michigan. Thank you for sharing your proposal.

Sincerely, James J. Blanchard, Governor.

STATEMENT OF HON. GEORGE R. ARIYOSHI, GOVERNOR, STATE OF HAWAII

Thank you for the opportunity to testify on S. 1279.

S. 1279 would give States the option of receiving a Federally-funded block grant for low-income nutrition assistance instead of administering the food stamp program.

We believe that such a measure would be regressive. Our objections to the proposal are based on the following:

1. Poverty is a national problem, and Congress recognized this premise when it first established the food stamp program in 1964 to address the basic subsistence needs of the poor. We believe that it is of utmost importance that the national scope and objective of the food stamp program be reaffirmed and continued in order to insure fair and equitable treatment of all our nation's poor, irrespective of their geographic location.

2. Funding will no longer be open-ended; therefore, states would suffer in times of unemployment and economic recession.

3. Each State, under the block grant system, would have different standards. Hence, if some states' standards were higher than others, we could conceivably expect people to migrate to those states with higher benefits. The result would be a disproportionate population and caseload.

We urge instead that Congress move to simplify existing programs to enhance their efficient administration by the States.

STATE OF ALASKA,
OFFICE OF THE GOVERNOR,
Juneau, Alaska, April 4, 1984.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your invitation to testify at your hearings on the Food Stamp program. Since I was not able to testify in person, I would like to ask that this letter be made part of the record of your Food Stamp oversight hearings.

You are undoubtedly aware of some of the concerns that we Alaskans have about the way the Food Stamp program, in its present form, fails to meet our state's nutrition assistance needs. These concerns have led us to seek Federal Legislature relief from program requirements that have proven unworkable, particularly in rural Alaska. H.R. 5151 and H.R. 5181, recently introduced in the House of Representatives, contain provisions that would permit Alaska to create a new pilot program for its rural areas. We anticipate that either of these bills, if enacted, would give us the flexibility we need to design a workable program for rural Alaska.

Federal officials with whom we work seem to be most familiar with, and concerned about, the high payment-error rates that Alaska has experienced in the Food Stamp program. What few, if any, of these officials have appreciated is the uniquely difficult program environment in which we must operate. We believe that the rules of the Food Stamp program, acknowledged by virtually everyone to be by far the most complex and conceptually difficult of all the Federally-sponsored public assistance programs, are literally unworkable in Alaska.

The Alaska statistics may be familiar to you:

1. 7500 Food Stamp households (fewest of all the states).
2. Half of these cases are in one city (Anchorage).
3. The remaining cases are scattered over an area one-fifth the size of the contiguous 48 states (586,000 square miles).
4. Road access is available to less than 70 percent of all our clients; the rest may be reached only by boat or airplane, if at all.
5. Mail service is infrequent and often unreliable in remote areas.
6. Large numbers of clients know the English language poorly or not at all, many speaking Eskimo dialects not yet reduced to writing.
8. Many rural clients are members of centuries-old Native cultures in which concepts of households, property, and personal obligation do not coincide with Food Stamp Program definitions and verification requirements.
9. Food purchasing is often a complex process involving either long travel to communities that have grocery stores or ordering groceries by mail, which are delivered by air parcel post or air freight.
10. Food costs are high throughout Alaska, but soar astronomically in rural areas. Recently documented costs reached as high as 222 percent of the national average,

and still higher costs are known to exist in more remote villages. Despite such high costs, many foods are often not available at all.

When these factors are all combined with the present Food Stamp program rules, the result is a program which cannot be administered within established error limits at reasonable cost and which does not meet the nutritional needs of a major segment of our needy population.

My Administration is deeply committed to the effort to remove the Federal administrative requirements that impede the delivery of nutrition assistance in Alaska, particularly in our rural areas. We welcome and appreciate the efforts of this committee and of the U.S. Congress toward that end.

Sincerely,

BILL SHEFFIELD, *Governor.*

STATEMENT OF HON. JOHN H. SUNUNU, GOVERNOR, STATE OF NEW HAMPSHIRE

ADMINISTRATIVE FLEXIBILITY

1. Provides for administrative streamlining, i.e., less Federal involvement including fewer administrative lawyers and regulations.

2. Places direct responsibility for program management closer to the clients it is intended to serve and to the taxpayers who support the program with their tax dollars.

3. Aids in program simplification that recognizes individual State and local rather than national needs.

4. Encourages States to take ownership of the program.

5. The State of New Hampshire historically has a solid record of commitment to aid the needy and the working poor. Block grant funding will enhance this record of achievement.

6. Given a block grant, this State would immediately move to simplify program administration by:

(a) Eliminating the current rules requiring Monthly Reporting and Retrospective Benefits in favor of short (one and two month certification) periods. These have proven, to be effective by this State's recent success in reducing the Food Stamp Program's error rate;

(b) Prohibiting expedited service for cases which do not cooperate in the recertification process. Stamps are mailed to ongoing cases on or about the 12th of the month. Stamps are mailed to expedited service cases within 5 days of application. Cases which have failed to cooperate can apply for expedited service and receive their stamps sooner than cases which have cooperated. This puts the State in the position of rewarding households for non-cooperation and removing any incentive to encourage cooperation.

(c) Eliminating the requirement to schedule a second eligibility interview for applicants when good cause for failure to keep the first appointment does not exist. Presently, rules require that applicants be given a second interview appointment when they do not show for the initial appointment. The high rate of no shows interferes with the proper management of the scheduling process and is detrimental to other cooperating applicants.

(d) Developing a simplified approach to household composition. Currently, policy on whose income and resources are considered to determine food stamp eligibility is based on a multitude of rules and exceptions such as food purchase and preparation, considering parents, children and siblings as one household, and special provisions for boarders and certain groups of elderly and disabled individuals. We would change policy to consider all individuals at the same address as one household with few, if any, exceptions.

(e) Considering a standard methodology to cover medical expenses and make the standard available to a broader spectrum of recipients. Currently, the program allows elderly and disabled recipients to receive a disregard for medical expenses incurred during the month. Under the block grant, the State would move in the direction of a more standardized medical expense disregard for the low income working recipient.

STATE AND FEDERAL RELATIONSHIP

(a) Block grant concept would eliminate the problems brought about by frequent issuance of complex rules.

(b) States will not be subjected to the Federally mandated error rate tolerance levels and the attendant fiscal sanctions resulting from a Quality Control process that has been cited by the Congress and the General Accounting Office as being flawed and inappropriate as a sanctions tool.

(c) The block grant process will allow for a more constructive State/Federal relationship by minimizing the Federal oversight involvement currently existing.

TARGETTING THE NEEDY AND WORKING POOR

(a) Allows more effective targetting of the population truly in need based upon individual State economic conditions.

(b) A comprehensive statewide needs assessment will aid in appropriate targetting of block grant dollars and enhance compatibility and even integration with local county, city or town assistance.

CURRENT BLOCK GRANTS

(a) Title XX and Energy Assistance Block Grants have worked well in New Hampshire.

(b) The development of State Plans and "no strings attached" nature has proven successful.

Although the optional Nutrition Assistance Block Grant has many advantages over the current Food Stamp Program, there are several cautions which should be kept in mind.

FUNDING

1. In FY '83, the Food Stamp Program cost in excess of $29 million in New Hampshire. Any substantive alteration in the funding level would have serious consequences on the State budgets.
2. In the current economic environment, the funding levels proposed appear to be adequate, however, a significant economic downturn or natural disaster could strain the State's resources. Therefore, some provision for supplemental funding would minimize this risk.
3. Currently, benefit levels in the Food Stamp Program are tied to the Thrifty Food Plan. How future funding levels at the national level will relate to a State's program is unclear.

LITIGATION

Historically, the Food Stamp Program has been subject to a great deal of time consuming and costly litigation. In order to minimize the potential for litigation against State run programs, certain protections should be established nationally to maintain basic consistency in program intent and regulations across all States.

STATE PLANNING

In order to efficiently administer a Food Stamp Block Grant, this State, as well as most other States would have to undertake a restructuring of its food assistance programs at both the State and local level. The effort necessary for the State to develop and implement an entirely new nutritional assistance program could be significant. Issues of equity, effectiveness and responsiveness will be raised. Many challenges from the advocate community and their legal representatives can be expected.

THE NEW HAMPSHIRE RECORD

The Food Stamp Program is currently (January, 1984 caseload) responsible for enabling 15,750 households or 37,960 New Hampshire residents whose income is below the poverty level index as ascertained by the U.S. Office of Management and Budget, to purchase a nutritionally adequate diet by supplementing their limited food purchasing power.

The Food Stamp Program began in August, 1974, with an initial caseload of 7,937 households representing 26,793 individuals. The program experienced a rapid growth rate during its first year, which was fueled by the economic recession of late 1974 and 1975, peaking within 10 months at a caseload of 22,660 households consisting of over 75,000 New Hampshire citizens. As the economic conditions in the state improved over the next several years, the caseload gradually decreased to a low of 13,032 households reached in July, 1978. Thereafter followed a pattern of steadily increasing growth which can be attributed to two primary factors; first, a spiralling rate of inflation which resulted in greater numbers of families falling below the federal poverty guidelines and second, the liberalization of program rules by the Congress.

In mid 1980, the participation rate again peaked at a new high of 23,000 households as a result of worsening economic conditions. Since then, the program has been reduced to the current level of 15,750 participating households; a direct result of improving economic conditions and stricter eligibility rules.

During the past year, the program brought in almost $1.96 million each month to the state's economy. During calendar 1983, the amount of federal dollars returned to the state by way of the Food Stamp Program was in excess of $23.5 million. USDA research has found that $6.20 in local business activity is generated for each Food Stamp dollar spent in the state. This means that over $145,000,000 in business activity will be generated annually within the State as a result of the Food Stamp Program.

STATEMENT OF HON. BILL CEVERHA, STATE REPRESENTATIVE OF TEXAS; AND NATIONAL CHAIRMAN, AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Thank you, Mr. Chairman and other distinguished Senators for inviting me to submit my remarks to the Committee concerning S. 1279, a bill which would establish a state block grant for the food stamp program. By way of introduction, my name is Bill Ceverha and I am the National Chairman for the American Legislative Exchange Council (ALEC), the nation's oldest and largest individual membership organization of State Legislators. The opinions which I will be sharing with you today stem from my experiences as ALEC's National Chairman and as a state representative for four terms in the Texas legislature. Currently, I am Vice-Chairman of the States Affairs Committee and a member of the Ways and Means Committee. Consequently, I have had a direct experience in limiting the growth of government and curbing spending. S. 1279 is just one example of the many attempts you, the bill's co-sponsors, and the Administration have made to bring responsibility back to the states.

It is my belief that an optional block grant is an innovative and workable approach to bring efficiency into the food stamp program. The philosophical ideas upon which this bill is based are sound. It presents an alternative to the sing-song of generating more federal money and raising tax dollars. It takes a stand and states where the federal government should cease to interfere.

Ensuring an adequate diet is not solely a national, or state, or local responsibility. It is wrong for malnourished citizens to be at the mercy of the national economy and national farm and trade policies. S. 1279 affords the opportunity for states to reach undernourished people; for, after all, the state knows better than the federal government who within its jurisdiction needs food and who does not. In fact, the federal government is dependent upon our state reports concerning citizens eligible for food stamps. Moreover, since the 1981 Omnibus Budget Reconciliation Act, states have demonstrated responsible and vigorous administration of block grants and have proven their determination to not shift away from the neediest as a target group. Pennsylvania is a prime example of the strides states have made to efficiently control their block grants. I will discuss some of the questions Pennsylvania has addressed later.

Not enough credit is given to governors and state legislators. We are not "country bumpkins" incapable of operating our own finances. We make significant efforts to secure replacement funding for activities within our block grants. Unfortunately, we cannot afford to supply all the services we want for our citizens; nevertheless, we are able to make administrative changes and innovations to meet the needs of our citizens which the federal government cannot.

The current food stamp program perpetuates a need, that is, a dependence on federal government by the state and its citizens. S. 1279 gives states and citizens incentives to become less dependent and, as a result, accept more responsibilities and learn from the consequences of their decisions—like mature adults. Indeed, there is no such thing as a free lunch and we all continue to pay dearly for the federal government's handouts. As I said earlier, I am in complete agreement with the philosophical underpinnings of the bill. However, I would like to interject some technical recommendations which I think could only enhance the soundness of this measure:

1. Better Incentives—

Program efficiency does not simply lie in transferring responsibilities from one level of government to another. Rather, it is attained by instilling the right incentives and most reasonable and simple administrative techniques. Up until now, neither positive incentives nor some simple administrative techniques have been implemented in the food stamp program. Part of the problem is that states and citizens are hardly held liable for their actions. Since states pay a fraction of the food stamp program, they naturally are not as concerned about program efficiency as they would be if they footed more of the bill or were more involved in the decision making. In the same way, citizens who are aware that states do not closely monitor their income will take full advantage of "fringe" benefits such as overissuance of food stamps or no investigation when income is underreported.

How to make states and food stamp recipients more liable for their actions is the real matter of concern here. The bill proposes several solutions to the dilemma.

(a) Allow the state to operate and establish nutritional assistance programs. Give the state exclusive authority to determine standards or requirements for eligibility e.g., workfare.

(b) Allow the Secretary of Agriculture to institute fiscal sanctions against block grant states which fail to utilize their allotments appropriately.

(c) Fine or imprison anyone who knowingly and willingly embezzles, misappropriates or obtains food stamps illegally.

These solutions are viable; however, more positive incentives or rewards need to be included to assure cost efficiency. For one, block grant states should be allowed to keep any revenues recovered from fraudulent use of food stamps. If the state retrieves the money, it should be able to keep it. In addition, funds paid to the block grant state which are not expended during the fiscal year should not be returned to the Secretary and added to the amount made available for allotment to other block grant states. But rather, the state should be permitted to keep its surplus and use it to improve its food stamp program or keep it as a cash reserve for food stamp payments in times of economic recession. Furthermore, a bonus system could be created for block grant states demonstrating cost efficiency and sufficient coverage for needy individuals. These incentives would be more effective than just penalizing a state for going beyond a fixed error rate.

2. Changes Involving the Allocation Formula—

In S. 1279, a state's initial allocation is based on the state's cost of operating the food stamp program between April 1, 1982, and March 31, 1983. I realize that some kind of concrete measure is necessary for determining individual states' percentage shares of the national food stamp program appropriation. However, a fixed ratio does not allow for variables such as times of economic recession, shifts in population, etc. Allowance has to be made in the formula for contingencies.

Furthermore, S. 1279 requires the Secretary and Comptroller General to evaluate possible alternative formulas for the allotment of funds to block grant states no later than a year following the bill's enactment. Practically speaking, this stipulation is very cumbersome for the states. Allocation formulas should be established prior to enactment of the legislation. Otherwise, many states will be unable to plan their programs.

Moreover, the allocation formula does not provide for the funding of USDA coupon issuance and redemption. Nor is there a provision in S. 1279 concerning the financial arrangements involved in the use of USDA coupons by the block grant states. The bill should either include such a provision or allow block grant states to send checks to recipients. Sending recipients a check would remove food stamps from the black market and reduce counterfeiting.

3. More Institutional and Comprehensive Reform—

An optional food stamp grant is just one reform necessary to stop wasting government funds to support an inefficient program. Other reforms must be considered. There have been state and private sector initiatives to determine both the success of block grants in general and the particular changes needed in the current food stamp program.

Block grants have proven to be a real benchmark in federal-state relations. Extending block grants to counties within a state would further advance sound management principles. However, many factors must be considered in order to guarantee their success. The Governor's Statewide Block Grant Advisory Committee in Pennsylvania issued a final report in December 1983, to outline accomplishments and recommendations for improving the administration of block grants in that state. The following questions posed by the Advisory Committee are helpful guidelines for the federal and state governments to determine the success and impact of block grants:

1. How many agencies lost or gained funding and what was this impact on the agency and most important, on what population?
2. Were those who lost funding able to find alternative sources of support?
3. Which agencies felt the greatest impact? (Governmental, private, non-profit and profit-making agencies?)

4. Which population has been affected the most, i.e., age, gender?

5. How great was the increase in demand for most services because of the changes in social programs?

6. Have agencies retained all elements of their programs, or eliminated service components as a result of the above changes?

7. What/how have agencies cut back? (Material provisions, outreach, staff training, services to individuals, services to groups?)

8. How many positions have been affected and how? Are those supportive or direct-service staff positions?

9. What is the morale of the affected providers? While they are being asked to do more with less, are consumers being lost in the system?

10. How have agencies' interrelations been affected with one another?

11. How have policy makers been educated on the block grant process?

Some of these questions must be asked by federal and state officials before a food stamp block grant is implemented. Other, more broad philosophical questions must also be addressed such as whether there should be a repeal of the historical linkage between AFDC and food stamps and whether states should be given policy discretion over AFDC.

In regards to recommendations for the food stamp program in particular, the President's Private Sector Survey on Cost Control, chaired by J. Peter Grace, issued a series of suggestions which, if all were implemented, could achieve savings estimated at $1.9 to $2.1 billion annually. Based on FY 1981 Food Stamp expenditures of $10.7 billion, excluding administrative cost, the Grace Commission found errors resulting in estimated losses of over $1 billion. The error rate was due to certification of ineligible recipients and overissuance of benefits to eligible recipients. The reasons for the erroneous payments are primarily attributable to the complex benefit formula, administrative difficulties due to complicated eligibility requirements, and an inadequate delivery system for distributing benefits.

The Texas Department of Human Resources kindly outlined for me recommendations to decrease the error rate in our state's management of the food stamp program. The problems and solutions we cite are similar to those raised by the Grace Commission and other states:

Problem: Verification of Eligibility.

Solution:

1. Mandated and enforced cooperation from federal agencies like IRS and SSA.
2. Periodic (every 3 to 6 months) validation of Social Security numbers (SSNs) for welfare/food stamp clients with SSA by computer tape of entire caseloads.
3. Validation of the SSNs given them by employees to employers and subsequently reported to the state employment service.
4. Intercept unreported unemployment compensation.

Problem: Overissuances—

Solution:

1. Enhanced computer matching and enforced cooperation from federal agencies.
2. Increased financial support of overissuance prevention activities (particularly uses of technological and information exchange).

Problem: Household Definition

Solution: 1. Administratively, the simplest and most cost effective policy approach is to define everyone who lives together as one household. This solution would, however, increase the problem of related households.

Problem: Overissuance Collection—

Solution:

1. Federal regulations now provide recoupment from current recipients and the possibility of collection agencies or other means for nonrecipients. For greater emphasis, increase the states' retained share of collections.
2. Offset collections of overissuance against fiscal sanctions for program errors.

Problem: Unreported Dividends and Other Unreported Assets—

Solution:

1. Enhanced Computer matching and enforced cooperation from federal agencies.
2. Specific authority to match against IRS interest files.

Problem: Expedited Service—

Solution:

1. Authority for states to set their own standards. Allow flexibility for defining criteria related to immediate food needs.
2. Elimination of requirement to give expedited benefits with postponed verification when household circumstances are questionable.

Problem: Receiving Stamps in Two States.

Solution: 1. Enhanced computer wage matching will help detect people who live and receive stamps in one state and work in another.

Problem: Lump Sum Payments.

Solution: 1. AFDC regulations consider most lump sum payments as income while food stamps consider non-recurring lump sums as resources. Program inconsistencies are confusing. The same policies should be used in the same situations.

Problem: Monthly Reporting/Retrospective Budgeting.

Solution:

1. Allow states to develop their own guidelines, especially on target populations.
2. Seek flexibility in AFDC federal regulations to match that already provided in food stamp regulations.
3. There needs to be a consistency of definitions, policies, and requirements between AFDC, food stamps and SSI federal regulations. These agencies need to work together with each other to avoid unintentional differences.

In order to curb fraud, waste, and other abuses associated with the federal food stamp program, recommendations by the states, the Grace Commission and the President's Task Force on Food Assistance need to be implemented. I ask the members of this Committee to remove provisions of existing laws which either promote, or are ineffective in curbing food stamp abuse. S. 1279 is a step in this direction, but more institutional and comprehensive reform as described above needs to be introduced and passed. ALEC and the people of Texas extend their support and encouragement in all your endeavors to improve the efficiency of the federal food stamp program.

STATEMENT OF THEO M. MURDOCK, ADMINISTRATOR, DIVISION OF WELFARE, DEPARTMENT OF HEALTH AND WELFARE, STATE OF IDAHO

On November 17, 1975, I gave testimony before the Senate Agriculture Subcommittee on Agricultural Research and General Legislation. At that time, I pointed out numerous problems in the use of what I called "funny money." First the reluctance on the part of especially this nation's elderly to be identified as a food stamp recipient every time they go to the corner grocery store to purchase food with their food stamps. I pointed out that this is possibly more of a problem in a small, rural state such as Idaho where everyone in a small community knows everyone else.

Additionally, I testified that an alternative to the food stamp program would be to provide for those individuals who already have been proven to be in the low-income sector be given a food allocation in the form of increased cash payments through their assistance checks, SSI benefits, Social Security benefits, and Unemployment Compensation. For those individuals who are under-employed and do not take home sufficient income to meet the needs of themselves and their families, the problem should be addressed directly rather than taking the back door approach of the food stamp program. This could be achieved through more adequate wages or benefits to the working poor of the United States. To meet the needs of those individuals who do not fall in to one of the groups that I have already mentioned, I would propose an emergency food system that could provide immediate food to individuals and families who find themselves without food regardless of the reason. The emergency food system could also act as an information and referral point to make sure that individuals eligible for the more long-term assistance program already in existence were availing themselves of those programs. Most cities and/or counties currently have emergency food programs and, with financial help, could expand them to meet the needs of the emergency program that I have described here.

Also presented in that testimony was a discussion of the tremendous expense in having two currency systems in the United States, one being the food stamp system and the other being the "green back" system. A suggestion was made that the money saved by cashing out the food stamp system could be used to finance the emergency food system and to provide some nutritional education, resulting in knowledge sufficient to purchase nutritionally balanced meals.

In the almost eight and one half years since I gave the above testimony, numerous changes have taken place in the food stamp program. They have attempted, through what I call the "cook book" approach, to tell states exactly how to administer a food program. What may meet the needs of low-income people in a large, industrial state continues to fall far short of the needs of those individuals in the State of Idaho. With the rapid change in policy and direction from the federal level, many times we are not able to get systems changed, staff trained, and clients advised prior to another change being made. Although Senate Bill 1279 does not directly address the problems that I identified in 1975, it does allow for the first time the potential for states to identify their own local areas of concern and deal with them. The potential for solving the problems that now exist with the food stamp program in the long run is possible with this bill. I must caution that if this bill is seen as the immediate solution to eliminating the national debt and it is changed or amended to not provide adequate funding to the states, it will fail. However, if funding is adequate to do a good job, states such as Idaho will initiate programs that will eliminate major abuses, reduce overhead costs, and meet the needs of their low-income citizens.

NATIONAL GOVERNORS' ASSOCIATION,
Washington, D.C., November 10, 1983.

Hon. JESSE A. HELMS,
Chairman, Senate Committee on Agriculture, Nutrition, and Forestry, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for the invitation to testify before the Senate Committee on Agriculture, Nutrition, and Forestry on S. 1279; the "Food Stamp Optional Block Grant Act of 1983." Although the National Governors' Association will be unable to testify, I would like to take this opportunity to share with you some concerns we have relative to the proposed optional block grant in the Food Stamp program.

First, while we support the continuation of the Nutritional Assistance Block Grant for Puerto Rico, we are concerned that an optional block grant for the rest of the nation will initiate a process of turning back responsibility for the Food Stamp program to the states. Although the states have indicated a willingness to assume greater responsibility for many categorical programs, the NGA firmly supports a national income assistance policy and an increasing federal role in financing this policy. Such a role recognizes the impact the federal government has upon the levels of dependency and the inequities in the distribution of resources and problems across states. The Food Stamp program is a critical element in the national income assistance program and we are convinced the primary role of the federal government should be preserved.

Second, we are concerned an optional block grant will signal the erosion of the federal commitment to develop a program providing resoures based on the number of eligible individuals and the cost of a basic food budget. There is considerable danger a block grant will lead to effectively capping program expenditures and termination of the current flexibile relationship between national economic conditions, the numbers in need of assistance and the availability of federal resources. We believe this flexibility is a critical component in our national commitment to meeting income needs during periods of economic distress.

We believe that a key concern in congressional consideration of changes in the Food Stamp program should be the impact that those changes will have on the fiscal condition of state and local governments. States are still caught in an economic double-bind of recession reduced revenues and recession induced increases in the costs for Medicaid, AFDC, Unemployment Insurance and Social Service programs.

The National Governors' Association has longstanding commitment to improve the administration and effectiveness of the national welfare program. We appreciate the importance of the state role in operating the Food Stamp program with maximum efficiency and accuracy. We are prepared to work with your committee and the Administration to identify areas of cost avoidance, to reduce the error prone nature of the current system, and to increase the self-sufficiency of welfare recipients. We believe, however, that no additional changes should be made which will shift costs or responsibilities to the states and erode the federal commitment to a national income assistance program.

Again, thank you for allowing NGA the opportunity to comment on the proposed Food Stamp legislation. We look forward to the opportunity to work with you in constructive changes in this important program.

Sincerely,

RAYMOND C. SCHEPPACH.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS,
Washington, D.C., November 10, 1983.

Hon. JESSE HELMS,
Chairman, Senate Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.

DEAR CHAIRMAN HELMS: The Committee on Agriculture, Nutrition and Forestry requested the views of the Advisory Commission on Intergovernmental Relations on S. 1279, a bill "to amend the Food Stamp Act of 1977 to establish a State block grant option for the food stamp program."

The Commission has not studied the subject of this proposed legislation in detail and can offer no specific comments regarding its intent.

However, the Commission has studied the general purpose of block grants and made recommendations. The basic thrust of the following recommendation is to specify the fiscal, functional, and political conditions that seem to make block grants most appropriate. The Commission recommends that Congress use the block grant as the preferred instrument to provide federal financial assistance to state and local governments in cases where:

(1) a cluster of functionally related categorical programs have been in existence for some time;

(2) the broad functional area to be covered is a major component of the recipient's traditional range of services and direct funding;

(3) states are heavily supporting those services that the Congress determines also to have national significance;

(4) no more than mild fiscal stimulation of recipient outlays is sought;

(5) a modest degree of innovative undertakings is anticipated;

(6) program needs are widely shared both geographically and jurisdictionally; and,

(7) a high degree of consensus over general purposes exists among the Congress, the federal administering agency, and recipients.

Additionally, other ACIR studies have led the Commission to make recommendations on the federal role in public assistance. The Commission recommends that the federal government move toward assuming full financial responsibility for existing governmental programs aimed at meeting basic human needs for employment security, housing, medical care, and nutrition. In assuming full financial responsibility, the federal government should take steps to ensure uniform levels of benefits, adjusted for cost of living variations, and consistent nationwide administration.

Although S. 1279 is generally consistent with the overall thrust of ACIR's recommendations, it does not comport with recommendations pertaining to ensuring uniform levels of benefits, adjustments for cost of living variations, and consistent nationwide administration.

Thank you for giving us the opportunity to comment on this bill.

Sincerely,

S. KENNETH HOWARD,
Executive Director.

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207127

March 28, 1984

The Honorable Jesse Helms, Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

Dear Mr. Chairman:

At the request of your staff, we are providing our comments on S. 1279, the Food Stamp Optional Block Grant Act of 1983, introduced by you on May 12, 1983, to amend the Food Stamp Program. This supplements the comments we provided to you on May 13, 1982, on S. 2352, a bill you introduced April 1, 1982. Our comments are on section 2 which would authorize a state block grant option.

Section 2, page 1, proposes to add to the Food Stamp Act of 1977, as amended, a new section 21 which would give individual states the option of continuing to operate the Food Stamp Program in accordance with sections 1 through 20 of the act as amended, or of operating a low-income nutritional assistance block grant program in accordance with the new section 21.

Section 21(b)(2), page 2, provides that notice of a state's election to operate a low-income nutritional assistance block grant program shall be given the Secretary at least 30 days before the beginning of the first fiscal year it elects to operate the grant program. Such period of notice may not be long enough to enable the Secretary to make all necessary arrangements, particularly if a large number of states make this election and request the Secretary to provide technical assistance.

Section 21(d)(1), page 5, should be clarified to specify whether a state, after administering the block grant in a particular year, can elect to have the Secretary resume administration of the program. If states are to be authorized to return to the "regular" Food Stamp Program, they should be required to provide the Secretary sufficient advance notice of their intention to do so. Problems could arise if a state provided cash assistance under the block grant option and then resumed the use of coupons when the state returned to the regular Food Stamp Program because it would be difficult for the Secretary to determine the amount of coupons needed each year. Also, it would cause administrative complications for the Secretary in reviewing and managing a different mix of states in the regular Food Stamp Program each year, and authorizing and terminating retail outlets authorized to accept food coupons for food purchases. One solution might be to require that states choosing the block grant option be required to stay on that program for some specified number of years before they could return to the regular Food Stamp Program.

Section 21(d)(6)(A), page 7, requires the chief executive officer of a block grant state to submit a plan, including any revisions, to the Secretary describing how the state will implement certain requirements placed on the state before it receives the grant. It is not clear what the Secretary should do with the plan and/or revisions since the Secretary's approval is not specifically required.

Section 21(f)(1), page 10, requires the Secretary to pay each block grant state the total allotment of funds for a fiscal year to which the block grant state is entitled immediately after the Secretary has determined the amount of such allotment. This could result in the federal government providing large sums of money to states before states would actually need the money for block grant program purposes, and incurring additional interest costs. Use of a letter-of-credit arrangement and providing funds as the need arises would be less costly.

Section 21 does not specify whether funds allotted to the block grant states may be used to finance administrative costs. To clarify this issue, the Congress may wish to include some guidance on the amount or percentage of administrative costs that may be financed out of the block grant funds.

Finally, we suggest clarification of the audit provisions contained in section 21(d)(3)(E), page 6, section 21(d)(8) and (9), pages 8 and 9, and section 21(g)(3), page 12 to specifically

--identify the type of audit required as a financial and compliance audit,

--identify the standards that apply in making such audits as the standards established by the Comptroller General for the audit of governmental organizations, programs, activities, and functions,

--provide that if a single financial and compliance audit of an entity is made to fulfill statutory or regulatory requirements, this shall be deemed to satisfy the requirements of this act, and

--address the obligations of the Secretary to provide oversight over program expenditures.

In November 1983, the Senate passed S. 1510, the Uniform Single Audit Act of 1983. Chairman Jack Brooks introduced H.R. 4821, the Single Audit Act of 1984 in the House in February 1984, and hearings were held on March 20, 1984. These two pieces of proposed legislation provide for a single financial and compliance audit of recipients of federal assistance programs.

We support the proposed single audit legislation, and we believe this legislation, if enacted, will improve the financial management and accountability of state and local governments for federal financial assistance, including block grants.

The enclosed suggested audit language provides that if a financial and compliance audit of the entity is conducted as required by statute or regulation, it shall be accepted in lieu of an audit of the individual block grant.

We have also recently completed a study of progress made in auditing state and local government federal assistance programs. This study, made in 10 states, addresses issues raised in the House Committee on Government Operations Report No. 97-917, October 1, 1982, Improving the Financial Management and Auditing of Federal Assistance Programs. Additionally, as part of our effort to monitor the implementation of block grants created by the Omnibus Budget Reconciliation Act of 1981, we are obtaining information on the status of block grant audits in 13 states.

We will provide you with copies of the results of our studies as soon as they are available. If you desire, we are available to discuss these matters further with you or your staff.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

Enclosure

SUGGESTED AMENDMENTS TO S. 1279--FOOD STAMP OPTIONAL BLOCK GRANT ACT OF 1983

I. Add new paragraph (5) under Sec. 21.(a), page 2 to read as follows:

"(5) 'Financial and compliance audit' means to determine (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.

II. Strike existing subsection (E), page 6, lines 21-24, and insert the following in substitution:

"(E) provide for an audit as provided in paragraph (8)."

III. Strike existing paragraph (8), page 8, lines 18-25, and page 9, lines 1 and 2 and insert the following in substitution:

"(8)(a) Each block grant State shall provide for a financial and compliance audit of the funds provided the State under this section. Such audits shall be performed annually, and shall be conducted in accordance with standards established by the Comptroller General for the audit of governmental organizations, programs, activities, and functions.

(b) A single financial and compliance audit on an entity basis of each State, or each State department or each State agency administering funds provided under this section shall be deemed to satisfy the requirements of subparagraph (a) of this paragraph, provided that each of the described entities undergo such an audit annually, and that such audits are conducted in accordance with standards prescribed by the Comptroller General under subparagraph (a), except that if the government operates on a biennial fiscal period, such audit may be made biennially but shall cover the financial statement or statements for, and compliance with the requirements of this act during, both years within such period.

(c) Within 30 days after completion of an audit under subparagraph (a) or (b), a copy of the audit report shall be transmitted to the State legislature and the Secretary, and shall thereupon be made available for public inspection."

IV. Strike existing paragraph (9), page 9, lines 3-8, add new paragraph (9) to read as follows:

"(9)(a) The Secretary shall provide from time to time for audits of the use of funds under this section to determine compliance with the requirements of this section, and to otherwise review the effectiveness of this section and its implementation by the Federal Government, the States, their grantees and contractors. Such work shall build upon the work already done pursuant to paragraph (8)(a) and (8)(b).

(b) The Secretary shall annually provide the Congress a report on his audit efforts, relevant recommendations and findings, and actions taken in response to such recommendations and findings.

(c) Nothing in this section shall be construed to diminish the authority and responsibility of the Inspectors General."

V. Add new paragraph (10), page 9, to precede paragraph (e)(1), page 9, to read as follows:

"(10) The Comptroller General may from time to time review and evaluate expenditures made under this section to determine whether there is compliance with the requirements of this section, and to assess the economy, efficiency, and effectiveness of programs carried out thereunder. Such reviews and evaluations may include the States' and the Secretary's performance in fulfilling the requirements of paragraphs (8) and (9)."

VI. Strike existing paragraph (2), page 12, lines 14-17.

VII. Strike existing paragraph (3)(A), page 12, lines 18-23, and insert the following, renumbered as (2)(A), in substitution:

"(2)(A) For the purpose of discharging their responsibilities under this section, the Secretary and the Comptroller General shall have access to and the right to copy any books, accounts, records, correspondence, or other documents that are related to funds or programs provided for or established by this section, and that are in the possession, custody, or control of States, political subdivisions thereof, or any of the grantees or contractors of such States or political subdivisions."

[Reprint from the Congressional Record, May 12, 1983]

By Mr. HELMS (for himself, Mr. MCCLURE, Mr. EAST, and Mr. NICKLES):

S. 1279. A bill to amend the Food Stamp Act of 1977 to establish a State block grant option for the food stamp program; to the Committee on Agriculture, Nutrition, and Forestry.

FOOD STAMP OPTIONAL BLOCK GRANT ACT OF 1983

Mr. HELMS. Mr. President, I send to the desk legislation to permit States to operate a low-income nutrition assistance block grant in lieu of the present food stamp program.

This is the same legislation as that included within the Senate version of the Omnibus Budget Reconciliation Act of 1982. Unfortunately, the House conferees on the bill did not agree to include this provision in the 1982 reconciliation bill.

This forthright, sensible approach to nutritional assistance merits the careful consideration and support of my colleagues, as it did last year. We need not be confined to the issues of the past in determining how best to manage food assistance in the future.

Providing the States with the discretion on how to operate their programs will enable those States which wish to strike out in a new direction the option to do so without any coercion to those States who do not want to take such initiatives. This optional block grant approach allows federalism to work at its best, with maximum State flexibility.

BACKGROUND

In 1981, the Committee on Agriculture, Nutrition, and Forestry recommended, and the Congress enacted, a mandatory block grant for Puerto Rico, which is funded at $825 million annually.

Many State and local officials have suggested to me for years that for numerous reasons they feel the need for greater flexibility in the administration of the food stamp program.

The current food stamp program is caught between two competing interests. On the one hand, administrators at all levels of government—Federal, State, and local—desire that the program be as administratively simple and efficient as possible, an objective I share.

However, the additional Federal interest is that of insuring responsibility by the States in the operation of the current program. This is needed because under the present system the Federal Government bears 100 percent of the costs of the program; that is, the actual food stamp benefits distributed to individual households. Therefore, States have often concentrated on increasing the number of food stamp recipients; to do so did not cost the State, but rather was financed by the Federal Government.

Additionally, there has been all too little concern with efficient administration because, again, costs for failures in the system largely are being borne by the Federal Government. Administrative costs associated with the program are shared, 50-50 between the Federal Government and State governments.

The present system, however, provides little to no incentive for States to operate an effective and efficient program. As a consequence, many safeguards have been added to the law and regulations to insure that States will be required to do effective administration, stress important verification procedures, detect and prosecute fraudulent participation, and so forth. In essence, the Federal Government has been forced to establish every jot and tittle of procedure in order to be certain that such measures are implemented by the States.

After hearing many suggestions from local and State officials, I have attempted to merge these two interests in a way that will benefit all interested parties—Federal, State, and local governments as well as recipients.

I believe this proposal will provide for the right mix of State responsibility—with a set amount of Federal funds each year—and State flexibility—by providing significant State discretion and independence—which should prove to be a successful approach.

FUNDING FORMULA

Under the State option block grant, each State would have the option of operating its own nutrition assistance program in lieu of the food stamp program. Federal funding would continue, based on the percentage of the national expenditures which have been going to each State. The block grant allocation to each State during any fiscal year would be based on the State's share of funding—both benefit costs and the Federal share of State administrative expenses—during the 12-month period ending March 31, 1983. No State would receive less than one-quarter of 1 percent of the total appropriation.

A State's initial allocation is based on the State's cost of operating the food stamp program between April 1, 1982, and March 31, 1983. A tentative outline of approximate percentages compiled by the Department of Agriculture follows, based on the 12 months ending December 31, 1982:

Ratio of operating costs—January 1, 1982 to December 31, 1982

[Percent of food stamp program during fiscal year 1982]

Alabama	2.92
Alaska	.29
Arizona	1.36
Arkansas	1.40
California	6.31
Colorado	.85
Connecticut	.68
Delaware	.27
District of Columbia	.47
Florida	4.67
Georgia	2.97
Guam	[1].17
Hawaii	.69
Idaho	.38
Illinois	5.59
Indiana	2.18
Iowa	.87
Kansas	.58
Kentucky	2.80
Louisiana	2.59
Maine	.67
Maryland	1.74
Massachusetts	1.96
Michigan	4.67
Minnesota	.89
Mississippi	2.40
Missouri	1.93
Montana	.25
Nebraska	.34
Nevada	[1].21
New Hampshire	.26
New Jersey	2.87
New Mexico	.87
New York	8.76
North Carolina	2.68
North Dakota	[1].13
Ohio	5.44
Oklahoma	.83
Oregon	1.45
Pennsylvania	5.11
Rhode Island	.37
South Carolina	2.09
South Dakota	.25
Tennessee	3.27
Texas	5.91
Utah	.33
Vermont	[1].20
Virgin Islands	[1].20
Virginia	2.02
Washington	1.48

West Virginia	1.17
Wisconsin	1.13
Wyoming	[1].08

[1] Under the block grant funding formula, a minimum of 0.25 percent would be provided to each State.

Note: Figures may not add due to rounding.

Source: Food and Nutrition Service, U.S. Department of Agriculture.

The provision requires the Secretary to pay each block grant State the total allotment of funds for a fiscal year to which the block grant State is entitled immediately after the Secretary has determined the amount of such an allotment at the beginning of the fiscal year. A State would thus know its minimum level of funding at the onset of the fiscal year. Any subsequent funding during a fiscal year, such as a supplemental appropriation, also would be allocated according to the formula.

The formula has been designed in such a way that neither States opting for the block grant nor those continuing under the Federal system will be disadvantaged. The legislation also requires the Secretary of Agriculture to work with the Comptroller General of the United States to develop alternative formulas for the distribution of funds and report to Congress on such alternative formulas by June 30, 1984.

As with many of the block grants established in other programs in 1981, the provision permits the Secretary to allocate funds directly to Indian tribes from the allotment of the block grant States, if the tribes so request and if the Secretary determines that a direct allocation would better serve the members of the tribe or tribal organization.

STATE FLEXIBILITY

Maximum flexibility would be granted to each State to establish nutritional assistance programs designed to meet the needs of that State. Regulatory involvement by the Department of Agriculture would be minimal. The Department would not be permitted to override State plans of operation which meet the guidelines of the legislation.

Each block grant State would have exclusive authority to make determinations concerning standards of or requirements for eligibility to receive assistance under funds furnished through the block grant, and the Secretary may not interfere with such determinations. The State's eligibility standards may include a requirement for work—such as workfare—or a requirement for financial contribution by the recipient.

The amount and form of assistance granted to individuals within the State would be determined by the State. A State must, however, follow through and implement the type and distribution of such assistance as it describes in its annual application.

A State wishing to operate a low-income nutritional assistance block grant during any fiscal year would notify the Secretary at least 30 days before the beginning of the first fiscal year it elects to operate a grant program. A State's election to operate a subsequent year is renewable at the State's option.

USDA OVERSIGHT

Protections that were incorporated in the 1981 block grants against discrimination and prohibiting the use of funds for construction purposes are included.

A State wishing to operate a block grant must submit an application to the Secretary of Agriculture which must include assurances that the State will comply with the purposes and restrictions of the low-income nutritional assistance block grant.

A State wishing to operate a low-income nutritional assistance block grant would be required to:

Conduct public hearings at least biennially by the legislature in order to insure public and legislative involvement in the operation of the block grant;

Certify that it will assess on a regular basis the food and nutrition needs of needy persons residing in the State;

Use the funds provided to raise the level of nutrition among low-income households residing in the State;

Designate a single agency which should be responsible for the administration, or supervision of the administration, of the program for which funds are provided;

Provide that fiscal control and fund accounting procedures will be established to assure the proper disbursal of and accounting for Federal funds, including procedures for monitoring the program carried out by the State with the assistance provided;

Provide for an audit, not less than biennially, of the State expenditures of funds received under the block grant;

Describe how the block grant State will carry out the above protections, and provide a description of the assistance to be provided and the recipients who will be eligible under the program, and the administering agency.

As with block grants adopted in 1981, the General Accounting Office would evaluate expenditures to assure that they are consistent with the requirements of the block grant legislation.

The Secretary's primary role with block grant States is one of oversight. He may, at the request of a State, provide technical assistance to a State considering a block grant, including any analysis of the feasibility and potential shortcomings of specific block grant plans under consideration by the State.

The Secretary would also be responsible for assuring that States opting for a block grant use the funds for the purposes for which they certified the funds would be used. The legislation requires the Secretary to respond expeditiously to complaints of a substantial or serious nature that a block grant State has failed to use funds in accordance with the enacting legislation.

The Secretary may institute fiscal sanctions against block grant States which fail to utilize their allotments in accordance with this legislation in several ways. He may withhold funds, require a State to repay the Federal Government, or offset the amounts against future allocations to the State.

The Secretary and the Comptroller General may request, and the block grant State would be required to furnish information about the operation of the block grant within that State. However, the Secretary and the Comptroller General may not require States to compile information not already available within the State.

Fines and imprisonment penalties are established for anyone who knowingly and willingly embezzles, misappropriates, steals, or obtains by fraud, false statements, or forgery, funds, assets, or property provided or financed under the legislation.

Two recent articles have drawn attention to the attractiveness of the State option block grant. I ask unanimous consent that an article on food stamp reform by Robert J. Valero that was published by the Heritage Foundation in Agenda 1983 and an article on food stamp fraud by Randy Fitzgerald that was published in the February 1983 issue of Reader's Digest be printed at this point in the Record.[1]

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[1] Retained in committee files.

II

98TH CONGRESS
1ST SESSION

S. 1279

To amend the Food Stamp Act of 1977 to establish a State block grant option for the food stamp program.

IN THE SENATE OF THE UNITED STATES

MAY 12 (legislative day, MAY 9), 1983

Mr. HELMS (for himself, Mr. MCCLURE, Mr. EAST, and Mr. NICKLES) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Food Stamp Act of 1977 to establish a State block grant option for the food stamp program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Food Stamp Optional Block Grant Act of 1983".

SEC. 2. (a) The Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.) is amended by adding at the end thereof the following new section:

"STATE BLOCK GRANT OPTION

"SEC. 21. (a) As used in this section, unless the context otherwise requires, the term—

"(1) 'Attorney General' means the Attorney General of the United States.

"(2) 'Block grant State' means a State which is operating a low-income nutritional assistance program in accordance with this section.

"(3) 'Comptroller General' means the Comptroller General of the United States.

"(4) 'State' means the fifty States, the District of Columbia, Guam, and the Virgin Islands of the United States.

"(b)(1) A State may elect—

"(A) to operate a low-income nutritional assistance block grant program to finance expenditures for food assistance for needy persons within the State in accordance with this section, or

"(B) to have the Secretary operate the food stamp program within the State in accordance with sections 2 through 18 and section 20.

"(2) If a State elects to operate a low-income nutritional assistance block grant program pursuant to paragraph (1)(A), the State shall give notice to the Secretary of such election at least thirty days before the beginning of the first fiscal year it elects to operate the program.

"(3) The Secretary shall make grants to block grant States in accordance with this section.

"(4) The Secretary shall retain each fiscal year, out of funds appropriated pursuant to the authorization contained in section 18(a)(1) for such fiscal year (other than the amount apportioned pursuant to section 19(a)), an amount which bears the same ratio to the total amount appropriated pursuant to such authorization as the amounts received by and benefits distributed in block grant States for the period beginning April 1, 1982, and ending March 31, 1983, under this Act and section 8 of the Act of December 31, 1973 (Public Law 93-233; 42 U.S.C. 1382e note), bears to the total amount received by all States for such period under this Act and such section.

"(c)(1)(A) The Secretary shall allot to each block grant State in each fiscal year, out of funds retained under subsection (b)(4) for such fiscal year, an amount which bears the same ratio to the total amount of funds retained under such subsection as the amount received by and benefits distributed in such block grant State for the period beginning April 1, 1982, and ending March 31, 1983, under this Act and section 8 of the Act of December 31, 1973 (Public Law 93-233; 42 U.S.C. 1382e note), bears to the total amount received by all such block grant States for such period under this Act and such section.

"(B) Notwithstanding subparagraph (A), no block grant State may receive for any fiscal year an amount less than one-quarter of 1 per centum of the amount appropriated pursuant to the authorization contained in section 18(a)(1) for such fiscal year which remains after the apportionment required by section 19(a). If one or more block grant States receive minimum allotments by virtue of this subparagraph, the total amount of funds available to other States shall be reduced by the total amount of allotments received by virtue of this subparagraph.

"(2)(A) If, with respect to any block grant State, the Secretary—

"(i) receives a request from the governing body of an Indian tribe or tribal organization within the block grant State that assistance under this section be made directly to the tribe or organization; and

"(ii) determines that the members of the tribe or tribal organization would be better served if grants to provide benefits under this section were made directly to such tribe or organization,

the Secretary shall reserve, from amounts which would otherwise be allotted to the block grant State under this section for the fiscal year, the amount determined under subparagraph (B).

"(B) The Secretary shall reserve for the purpose of subparagraph (A) from sums that would otherwise be allotted to the block grant State an amount which bears the same ratio to the block grant State's allotment for the fiscal year involved as the population of all eligible Indians for whom a determination has been made under this paragraph bears to the population of all individuals eligible for assistance under this section in the block grant State.

"(C) The sums reserved by the Secretary under this paragraph shall be granted to Indian tribes and tribal organizations on the basis of the relative number of individuals contained in the Indian tribes and tribal organizations for whom a determination has been made under this paragraph.

"(D) To be eligible for a grant under this paragraph in any fiscal year, an Indian tribe or tribal organization must submit to the Secretary a plan for the fiscal year which meets such criteria as the Secretary may prescribe by regulation.

"(d)(1) To be eligible for a grant under this section in any fiscal year, a block grant State must submit an application to the Secretary for the fiscal year. Each application shall be submitted at such time and in such form as the Secretary shall require.

"(2) No funds may be allotted to a block grant State for any fiscal year after the fiscal year in which such block grant State received funds under this section unless the legislature of the block grant State conducts public hearings, not less often than biennially, on the proposed use and distribution of funds to be provided under this section.

"(3) As part of the application required by paragraph (1), the chief executive officer of each block grant State shall certify in writing that the block grant State will—

"(A) assess on a regular basis the food and nutrition needs of needy persons residing in the block grant State;

"(B) use the funds made available to it under this section to raise the level of nutrition among low-income households residing in that block grant State;

"(C) designate a single agency which shall be responsible for the administration, or supervision of the administration, of the program for which funds made available under this section are used;

"(D) provide that fiscal control and fund accounting procedures will be established to insure the proper disbursal of and accounting for Federal funds paid to the block grant State under this section, including procedures for monitoring the program carried out by the block grant State with the assistance provided under this section;

"(E) provide for an audit (pursuant to paragraph (8)), not less often than biennially, of the block grant State's expenditures of amounts received under this section;

"(F) describe how the block grant State program will operate to carry out this paragraph, including a description of the assistance to be provided under the program, the recipients who will be eligible under the program, and the administering agency; and

"(G) comply with all the requirements of this paragraph and the public hearing requirement of paragraph (2).

"(4) The Secretary may not prescribe the manner in which the block grant States comply with paragraph (3). Each block grant State may prescribe, and the Secretary may not limit, standards of or requirements for eligibility for benefits under this section. Such standards or requirements may include a requirement for work or household contributions, or both, as a condition of eligibility for benefits under this section.

"(5) A grant made under this section may not be used by the block grant State, or by any person with whom the block grant State makes arrangements to carry out this section, for the purchase or improvement of land, or the purchase, construction, or permanent improvement of a building or other facility.

"(6)(A) The chief executive officer of each block grant State shall prepare and furnish to the Secretary a plan which describes how the block grant State will implement the assurances specified in paragraph (3). The chief executive officer of each block grant State may revise a plan prepared under this subparagraph and shall furnish a copy of the revised plan to the Secretary before its implementation.

"(B) A plan, including any revision of a plan, prepared under subparagraph (A) shall be made available for public inspection within the block grant State in a manner that will facilitate the review of, and comment on, the plan.

"(C) An Indian tribe or tribal organization which receives a grant under subsection (c)(2) shall not be a part of the plan submitted under this paragraph.

"(7) The Secretary may, upon a block grant State's request, provide technical assistance with respect to programs for the provision of assistance under this section, including technical assistance for the purpose of determining the feasibility of specific block grant plans under consideration by the block grant State.

"(8) Each block grant State shall provide for an annual audit of the funds provided to such block grant State under this section and shall have such audit conducted by an entity independent of the agency administering activities or services under this section. The audit shall be conducted in accordance with generally accepted accounting principles. Within thirty days after the completion of the audit, the chief executive officer of the block grant State shall submit a copy of the audit to the legislature of the block grant State and the Secretary.

"(9) The Comptroller General shall from time to time evaluate expenditures by block grant States of grants made under this section in order to insure that expenditures are consistent with this section and to determine the effectiveness of the block grant State in accomplishing the purposes of this section.

"(e)(1) No person may on the ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, a program or activity funded with funds made available under this section. Any prohibition against discrimination on the basis of age under the Age Discrimination Act of 1975 (42 U.S.C. 6101 et seq.) or with respect to an otherwise qualified handicapped individual as provided in section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) shall also apply to such a program or activity.

"(2) Whenever the Secretary determines that there has been a failure to comply with paragraph (1) or any applicable regulation pertaining to paragraph (1), the Secretary shall notify the chief executive officer of the block grant State and request the chief executive officer to secure compliance. If within a reasonable period of time, not to exceed sixty days, the chief executive officer fails or refuses to secure compliance, the Secretary may—

"(A) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted;

"(B) exercise the powers and functions provided under title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.), the Age Discrimination Act of 1975 (42 U.S.C. 6101 et seq.), or section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794), as may be applicable; or

"(C) take such other action as may be provided by law.

"(3) When a matter is referred to the Attorney General pursuant to paragraph (2)(A), or whenever the Attorney General has reason to believe there has occurred a pattern or practice in violation of this subsection, the Attorney General may bring a civil action in an appropriate United States district court for such relief as may be appropriate, including injunctive relief.

"(f)(1) The Secretary shall pay each block grant State the total allotment of funds for a fiscal year to which the block grant State is entitled under subsection (c) immediately after the Secretary has determined the amount of such allotment.

"(2) Payments made to a block grant State under this section for any fiscal year may be expended by the block grant State only in such fiscal year or in the succeeding fiscal year.

"(3) Any funds paid to a block grant State under subsection (c) which are not expended by the block grant State in the fiscal year for which they are paid or in the succeeding fiscal year may be expended by the block grant State on other social services provided pursuant to Federal law. The block grant State shall inform the Secretary of all such funds expended on other social services. If the block grant State elects not to expend all or part of the funds on other social services, the unexpended funds shall be returned to the Secretary and added to the amount made available for allotment to all the block grant States under subsection (b)(4) for the following fiscal year.

"(g)(1)(A)(i) A block grant State shall repay to the United States any amounts not expended other than in accordance with this section.

"(ii) The Secretary shall (in the absence of repayment by the block grant State under clause (i)) offset the amounts against any other amount to which the block grant State is or may become entitled under this section.

"(B)(i) The Secretary shall respond in an expeditious and speedy manner to complaints of a substantial or serious nature that a block grant State has failed to use funds in accordance with this section or an assurance made under subsection (d)(3).

"(ii) The Secretary, after adequate notice and an opportunity for a hearing conducted within the affected block grant State, shall withhold funds from a block grant State which fails to utilize its allotment substantially in accordance with this section or fails to meet an assurance made on behalf of the block grant State under subsection (d)(3).

"(C) Any funds repaid, offset, or withheld under this paragraph in any fiscal year shall be added to the amount made available for allotment to all the block grant States under subsection (b)(4) for the following fiscal year.

"(2) The Comptroller General may conduct investigations of the use of funds received under this section by a block grant State in order to insure compliance with this section.

"(3)(A) In connection with an investigation conducted under this subsection, a block grant State shall make appropriate books, documents, papers, and records available to the Secretary and the Comptroller General, upon a reasonable request, for examination, copying, or mechanical reproduction on or off the premises of the entity concerned.

"(B) The Secretary and the Comptroller General may not request information not readily available to a block grant

State or require that information be compiled, collected, or transmitted in a form not already available.

"(h) Whoever knowingly and willfully embezzles, misapplies, steals, or obtains by fraud, false statement, or forgery, any funds, assets, or property provided or financed under this section shall be fined not more than $10,000 or imprisoned for not more than five years, or both. If the value of the funds, assets, or property involved is not over $200, the penalty shall be a fine of not more than $1,000 or imprisonment for not more than one year, or both.

"(i)(1) The Secretary, in consultation with the Comptroller General, shall evaluate possible alternate formulas for the allotment of funds to block grant States under subsection (c). The formulas shall provide for the equitable distribution of the funds to block grant States and take into account the population, number of low-income households, financial resources, levels of unemployment, and such other factors within the block grant States which the Secretary deems appropriate.

"(2) The Secretary shall report to the Congress on the evaluation conducted pursuant to paragraph (1) no later than one year after the date of enactment of the Food Stamp Optional Block Grant Act of 1983.".

(b) Section 3 of the Food Stamp Act of 1977 (7 U.S.C. 2012) is amended by striking out "As" in the matter preceding subsection (a) and inserting in lieu thereof "Except as provided in section 21(a), as".

(c) The amendments made by this section shall be effective on October 1, 1983.

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